The Future of Massey-Ferguson

Massey-Ferguson Limited
133rd year–Annual Report 1980

YEAR AT A GLANCE

		1980	1979
OPERATING SUMMARY	*(Millions of U.S. Dollars)*		
	Net Sales	**$3,132.1**	$2,973.0
	Operating (loss)profit	**(139.1)**	30.3
	Provision for reorganization expense	**(28.5)**	(95.0)
	Extraordinary item	–	95.4
	Net exchange (loss) gain	**(57.6)**	6.3
	Net (loss) income	**(225.2)**	37.0
FINANCIAL STATUS	*(Millions of U.S. Dollars)*		
	Net current assets*	**$ 212.7**	$ 426.2
	Long-term debt*	**562.1**	624.8
	Capital and retained earnings	**353.1**	578.3
PER COMMON SHARE	*(U.S. Dollars)*		
	Net (loss) income (after cumulative dividends on preferred shares)	**$ (12.79)**	$ 1.58
	Common dividends paid	–	–
	Equity	**12.87**	25.66

*Excludes finance subsidiaries

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ANNUAL MEETING

The Annual Meeting will be held in the Canadian Room of the Royal York Hotel in Toronto, Canada, at 11 o'clock a.m., on Tuesday, April 28, 1981.

BUSINESS OF MASSEY-FERGUSON

Massey-Ferguson is a Canadian-based multinational corporation that designs, manufactures and markets, world-wide, farm and derived industrial machinery and diesel engines.

TO MASSEY-FERGUSON'S INVESTORS

1980 was an extraordinarily difficult year...Agreements in principle reached in February 1981 for Massey-Ferguson's refinancing...Company held market share in 1980 on a world-wide basis...1981 is likely to show a net loss...Market demand in 1982 expected to be strong.

1980 was an extraordinarily difficult year for your Company. It was relieved only by the tentative prospect, now happily realized, for arrival at agreements in principle which should lead to a major refinancing of Massey-Ferguson.

Pages 20 and 21 of this Report provide an excerpt from the Company's 10-K report to the U.S. Securities and Exchange Commission which details those uncertainties and caveats which investors should study in addition to reading the following much more general review.

Let's deal with the bad news first.

The Company entered 1980 hopeful but in financially frail shape, reflecting (a) the severe problems of 1978 and earlier and (b) a precarious debt-to-equity ratio, which resulted from a decade of dramatic growth financed, to the extent not provided for by retained earnings, largely by debt–and much of that short-term debt. The hopefulness stemmed from the new management's satisfaction that a remarkable process of "slimming down" had taken place in the previous year and a half, and, as a result of severe but objective measures, Massey-Ferguson was in substantially improved operational shape.

As the year began, an upturn in world agricultural markets seemed well established and management again began directing major attention to completion of its long-planned, large-scale equity program.

Then the roof fell in. Not only for us. But for the entire industry. The difference was that Massey-Ferguson didn't have the reserves to cope quite as calmly as some of our competitors. In the aftermath one of our competitors, a noble name in North American farm machinery, appeared threatened with extinction. Even your Company, the largest tractor manufacturer in the world, was endangered. The problems were:

Several key markets virtually collapsed. First North America, then Europe. Elsewhere in the world local markets weakened, in some instances quite severely.

Interest rates skyrocketed and had a doubly negative effect. Costs for short-term debt more than doubled in some cases, precisely at the time that such rates were further depressing markets.

The U.K. pound rose dramatically relative to most of the currencies with which our customers and your Company pay for our very significant exports from Britain. This depressed margins severely.

The resultant deterioration in operating results brought about a crisis in confidence during which the very survival of the Company became a popular speculation in the press, particularly in the English-speaking countries. The impact of what turned out to be a six-month-long morbid death watch further deteriorated sales during the second half, especially in North America.

When the downturn hit, the Company took a painful but prudent and quick action by implementing a comprehensive cash conservation program at the expense of the current income statement. Factories were closed temporarily. Inventories were reduced. This reduction in the supply pipeline impacted immediately and adversely on reported gross revenues because, like most of the industry, it is the wholesale sales to dealers and distributors–not retail sales–that are reflected in the current income statement.

These difficult conditions, which continue, resulted in a 1981 first quarter loss of U.S. $81 million.

Now the good news.

The general principles for the refinancing have been agreed to by all the leading participants. There are strong grounds for optimism that almost all negotiations on matters of substance can be concluded by the end of April. The closing will be held as soon as practicable thereafter. But even without the completion of these steps, the pressure on the Company, although it remains considerable, has been lessening progressively since our first major meetings on the refinancing plan, which were held with representatives of our world-wide lenders in December 1980. This pressure continued to ease with the achievement in mid-January 1981 of an agreement in principle with the leaders of our world-wide lending community, and with the announcement in early February that agreements in principle had been reached with the Governments of Canada and Ontario under which they would guarantee a preferred

share issue of Cdn. $200 million.

As a result of the progression of events since December, we have been able to begin the transition to more normal operational aggressiveness. An example has been some amelioration in the complex matter of intercompany fund transfers. Freeing up payments for component interchange between the national entities of the Company has made operating efficiencies more feasible. Another highly positive development recently has been the provision by our suppliers of $80 million in interim financing through payment deferrals.

The leading indicators which have previously signaled improvements in the markets for farm and industrial machinery and diesel engines are showing signs of strengthening. By the end of this year or early in 1982, world-wide demand is expected by the industry to improve significantly and, as a result, combine and tractor manufacturing plants in North America have been reopened.

Included in the "good news" section should be mention of the positive aspects flowing from the decisions of the Governments of Canada and Ontario to support the refinancing package. The first of these is that, without detriment to Massey-Ferguson's flexibility as a multinational enterprise, the Company is now much more firmly established in its "home" – Canada. As part of the arrangement for this government support, the Company has agreed upon a number of commitments concerning the upgrading of research and development in Canada, along with confirmation that any future expansion of manufacturing capacity in North America will, provided it is economically justified, be in Canada. These commitments fit harmoniously into both our short- and long-term plans. Canada's sophisticated industrial infrastructure combined with a highly favourable currency climate complement the Company's needs.

The final element in the review of positive news focuses on market share. Notwithstanding all of the excruciating problems that occurred in 1980, many of which impacted on Massey-Ferguson much more savagely than on our competitors, your Company maintained its market share on a world-wide basis. In fact, one of the more gratifying aspects of the year's results was that in the key high-horsepower tractor market in the U.S. corn belt, Massey-Ferguson was making major gains in market share right up to the time when the adverse publicity barrage concerning survival began – after which, understandably, market share declined. It is the Company's firm intention to resume its progress in this market sector.

THE OUTLOOK

The outlook is positive. 1981 will be a very difficult year. We anticipate a progressive improvement during the remaining three quarters, both as a consequence of stronger markets later in the year, and increased confidence following the progress with our refinancing plan. In spite of these factors, it is probable that a loss will be recorded for the year as a whole. 1982 is another story, however. The industry is bracing for a surge in demand and Massey-Ferguson has the products, the manufacturing capacity, and the distribution resources to exploit it profitably.

Elsewhere in this Report, there is a section on the Company's first definitive strategic plan. Preparation of the plan has proved to be a major asset. We have articulated Massey-Ferguson's objectives for the next decade and laid out detailed plans of how we will reach our goals. We have confidence these objectives will be achieved.

EFFECT ON COMMON SHARES

The refinancing package, while avoiding collapse and the consequential destruction of all common share value, will bring about a major dilution of existing common shares. Management was acutely sensitive to this problem throughout the negotiations leading to the agreements in principle. A large part of the refinancing involves cash, interest forgiveness, and debt conversion which will add to the Company's equity through exchanges for newly issued common shares. In the circumstances, it is your Board's opinion that the necessary dilutions and potential dilutions are preferable to the alternative, which was clearly the collapse of your Company.

Our Annual Report and Annual Meeting this year are somewhat later than usual. This is because we believed it important to include, as fully as possible, information on the components and progress of our refinancing program.

On behalf of the Directors, I want to thank the many thousands of people who have stood loyally by the Company in some of the most difficult circumstances in our 133-year history. These include our customers, distributors and dealers, suppliers, shareholders, lenders and our employees world-wide. Perhaps more than anything else, I believe such dedication augers well for a sound future.

Victor A. Rice
Chairman of the Board
and Chief Executive Officer

Toronto, March 23, 1981

DISCUSSION WITH MANAGEMENT

An interview with Massey-Ferguson's senior management on

THE COMPANY'S FUTURE

INTERVIEWER. Mr. Rice, what will be the effect of the Cdn.$720 million refinancing announced in February?

MR. RICE. Before we answer any questions, let me note, as I did in the letter to investors, that on pages 20-21 there is an excerpt from the Company's 10-K report to the U.S. Securities and Exchange Commission. I recommend that shareholders read this because it specifies those uncertainties and caveats, relative to the refinancing, which investors will wish to consider.

For the Company, the achievement of the agreements in principle with the leading participants to the refinancing has had four main effects:

- It has strengthened our cash flow because the Company has not been paying interest since December 1, 1980. Under the refinancing proposal, interest forgiveness will be retroactive to that date.
- It has somewhat eased the problem of moving funds internationally between interdependent elements of the Company. While this problem is not fully resolved, at least it has eased enough to permit us to function – although sometimes with difficulty – during the period when final negotiations and legal drafting are taking place.
- It removed the immediate spectre, given such prominence in the press, of imminent financial collapse, and thereby created a new climate of confidence with which Massey-Ferguson can start to exploit its strengths.
- Most importantly of all, it creates the base for a sound future.

INTERVIEWER. How does it affect the shareholders?

MR. RICE. For our shareholders, the refinancing package will mean:

- Payment of dividend arrears on the A and B preferred shares, through the medium of newly issued common shares and the prospect of continued regular payments of dividends in cash.
- For common shareholders there will be dilution but the effect of this will be mitigated by the fact that the newly issued common shares will be paid for either in cash or interest conversion which would be the equivalent of cash:

INTERVIEWER. Still, isn't that an extremely severe dilution?

MR. RICE. The alternative was bankruptcy, in which case the value of the undiluted shares would be zero.

INTERVIEWER. Mr. Barker, how many warrants are there associated with the shares to be guaranteed by the Governments of Canada and Ontario, and what are the conditions associated with them?

MR. BARKER. Initially there will be warrants to purchase 25 million common shares. The warrants provide the right to purchase common shares at $5.00 – we'll be using Canadian dollars in this discussion of our refinancing plan – for a period of ten years. If exercised at any time within two years, the holder will receive an additional, free, warrant which entitles the shareholder to purchase one common share for $4.00 for three years from the date of the original issue of the warrants,

Facing, from left to right. James Felker, Vice President Engines; John Ruth, Vice President Marketing; Darwin Kettering, Vice President North American Operations; Vincent Laurenzo Senior Vice President Planning and Administration; Victor Rice, Chairman and Chief Executive Officer; Douglas Barker, Vice President and Treasurer, Michael Hoffman, Vice President Technical and Vice President Southern Hemisphere Operations; James Campbell, Vice President European and World Export Operations.

and for $5.00 for seven years thereafter.

Therefore, there will be a minimum of 25 million and a maximum of 50 million warrants issued with the government guaranteed shares, and if fully exercised they would provide between $225 and $250 million of additional funds.

INTERVIEWER. Mr. Laurenzo, what commitments has the company made in return for the governments' $200 million equity guarantee?

MR. LAURENZO. The Company has committed to maintain or upgrade Canadian production facilities, increase emphasis on research and development in Canada, foster exports from Canada, give first preference to Canadian locations for any additional North American production capacity, and emphasize employment in Canada. Every one of these commitments is compatible with Company planning and makes good economic sense.

INTERVIEWER. Mr. Laurenzo, how will the governments' guarantee be retired?

MR. LAURENZO. The shares may be redeemed at the option of the Company at any time or they may be redeemed at the option of the holder at the end of ten years. There is a possibility the Company will be required to utilize proceeds from the exercise of warrants, from part of the proceeds of future equity issues, and from a percentage of future profits for the purpose of redeeming the preferred shares.

INTERVIEWER. Mr. Barker, when will the company get the cash?

MR. BARKER. That process is well under way. The Company is already receiving benefits as no interest has been paid by our operating companies to our world-wide lenders since December 1, 1980. The balance of the amounts agreed upon will be received mainly over a period of approximately 15 months.

INTERVIEWER. What is your "cash conservation program" there has been reference to, and what are some of its components?

MR. BARKER. This is a program to keep our cash balances at a sufficient level to operate the business while arranging our refinancing. We kept some plants shut for several months, and on a world-wide basis we have held inventories of raw materials, parts and finished wholegoods below normal levels. Also, in some countries, we have restricted credit sales. These actions have had an effect on our income statement, but the benefits can be seen in our first quarter 1981 balance sheet. This shows that in real terms current assets have been reduced by approximately 20 per cent versus a year ago, and borrowings have been held at their October 31, 1980 level.

INTERVIEWER. Mr. Barker, how do you see matters progressing from this point to the completion of the refinancing?

MR. BARKER. We have come a long way–further than many people thought we could–and although we still have many problems to work out, they look easier than the ones we've already solved.

For the time being we must keep our cash situation under careful review. But we have reopened our North American plants, for example. In putting together the agreements in principle, we believe the involved lenders and governments reflected a sincere desire to make the agreement work and not to see the Company collapse.

INTERVIEWER. Mr. Laurenzo, how did Massey-Ferguson get into such a mess?

MR. LAURENZO. That's a central question, of course. There were a number of contributing factors. The Company expanded tremendously in the '70's, financed largely through borrowings and failed to raise adequate new equity capital. Much of this debt was short term and when interest rates increased sharply in 1979-80, the interest bill became phenomenal–some U.S. $300 million in 1980 alone.

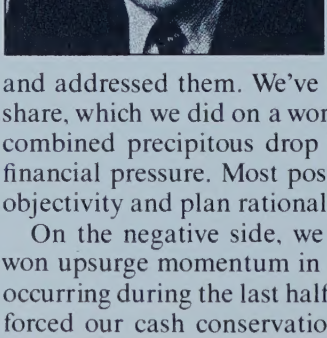
In those past years we also became so focused on sales growth that we lost sight of the need to improve our operational efficiency, especially in manufacturing. The Company also made some unfortunate acquisitions during this period.

As a result of all these factors, MF had become a higher cost manufacturer than the industry leaders and consequently we had fewer reserves for emergencies. Faced with suddenly depressed markets in 1980, the high value of British sterling which lowered margins on our large U.K. export volume, and high interest rates, we didn't have the financial strength to effectively withstand a crisis of those proportions.

INTERVIEWER. How many of those factors have been resolved?

MR. LAURENZO. Since 1978, management has divested the inopportune acquisitions. Also since that time, we've pared our operations down to our core businesses of farm machinery, related industrial machinery and diesel engines. Manufacturing efficiency has been improved significantly in the past two years. We've cut the work force and our manufacturing floor space each by one-third without jeopardizing our ability to meet current and foreseeable demand. Also, we'll never grow again just for the sake of growth.

INTERVIEWER. Mr. Rice, was Massey-Ferguson weakened in any major way by its financial crisis?



MR. RICE. We came through the crisis actually stronger from an operational point of view. There will, or course, be adverse aftereffects but none of them is irreversible.

On the positive side, in terms of the quality of our employees, we're rich in first class people who have been tempered under pressure. We established where our structural inadequacies were and addressed them. We've learned that we can hold market share, which we did on a world-wide basis in 1980 even with a combined precipitous drop in demand and intense internal financial pressure. Most positively, we were able to maintain objectivity and plan rationally for an aggressive future.

On the negative side, we have temporarily lost our hard-won upsurge momentum in the U.S. corn belt, and pressures occurring during the last half of 1980 and continuing into 1981 forced our cash conservation measures, such as reduced inventory levels, from which we will take some time to recover.

INTERVIEWER. But Mr. Rice, haven't you lost a lot of good people through all of this?

MR. RICE. Remarkably few on a voluntary basis. We've had normal turnover, but not at all what we might have expected. It's been a tremendous gratification to me, the way our people responded not by quitting but by striving, individually and

collectively, to see the Company through the crisis. That goes for all levels: our workers on the shop floor, secretaries, the management staff, and, of course, our executive team. They've been terrifically supportive. I owe each a great tribute.

INTERVIEWER. Mr. Rice, will the refinancing solve the problem permanently, or will it merely buy time?

MR. RICE. It will do much more than buy time. It will put the Company, for the first time in years, into a position where short-term financial criteria will not need to rule day-to-day operational decisions. More importantly, the sound operational side of the Company can expect to be freed from many of the constraints which have held it back. With this new situation, and with the markets developing as anticipated, we expect Massey-Ferguson to prosper.

We recognize, of course, that success in achieving our objectives may result ultimately in the desire or need to seek new equity again. Indeed, we will not make the same mistake as before, that of failing to ensure that we have a sound financial structure as the Company develops. So the potential necessity for additional equity should not be seen as a problem – but as a natural consequence of success.

INTERVIEWER. Mr. Rice, when does the company expect to make a profit?

MR. RICE. That depends on a number of external factors beyond the control of the Company – such as interest rates, weather, harvests, and crop prices in key markets and so forth. Most importantly, it depends on an upturn in our markets. Neither we nor others in the industry can be sure when that will be, although we are, collectively, looking to early 1982. But our projections, which attempt to take all of these factors into account, suggest we will see progressive improvement through 1981 but not sufficient to allow us to avoid a loss for the year as a whole.

INTERVIEWER. Mr. Rice, what about 1982?

MR. RICE. We expect that 1982 will be a good year for the industry and for Massey-Ferguson.

World grain stocks are at their lowest point in years and much of the world's operating farm machinery has aged beyond the point of normal replacement. Both of these factors are building a substantial demand which we expect will create a strong market no later than early 1982.

INTERVIEWER. Mr. Laurenzo, how will the company's strategic plan help Massey-Ferguson deal with its shorter-term situation? Isn't such a plan basically for the long range?

MR. LAURENZO. Our strategic plan has played an important role in our refinancing efforts. Our lenders and potential investors have wanted to know management's long-range vision for the Company.

Of course, our strategic plan does go into the long range, ten years specifically, but it has a very definite effect even in the short term. It helps us to identify priorities – such as joint venture concepts and asset utilization – both of which need to be dealt with in the immediate term. Moreover, our plan for the 1980's helps tell us what we need to do in the short term, for example, about North America, or Europe, or our high-horsepower tractor range, because we know where we are going strategically with those elements of our business in the longer term. At the same time, we can prepare for diversification in the mid-to-late 1980's because we've thought through the directions in which we want to go – with what kinds of products in which markets. So our plan gives us a context within which to manage our current business day-to-day. At the same time, it is not history projected; in the 1980's we don't think history will stand any business in good stead.

INTERVIEWER: Mr. Kettering, what is MF's long-range plan for North America? Over-all, the company hasn't seemed to do very well in that market, especially in recent years.

MR. KETTERING. Historically we've had very good sales in North America in small tractors and our strong line of combines, and early last year we began making headway with our new high-horsepower tractors. But in our strategic planning we have recognized that profitable participation in the North American market requires investments in fixed and current assets that cannot be provided by our current or projected scale of operations on their own.

We have significant strengths especially in engineering, marketing and distribution, and a line of high technology products which have shown they are capable of making their mark in this competitive market.

Our strategy in North America is therefore to form alliances in relation to all or part of our operation's there, in order to build on our strengths and lead to the scale that is necessary to achieve manufacturing efficiency, low product cost and the most effective use of our distribution network. These alliances will be with one, or maybe two, other companies – although don't ask me who that will be.

INTERVIEWER. So does the company intend to keep trying to increase market share in North America, despite all the problems you've had there?

MR. KETTERING. Yes. Absolutely. We're not in a profitable position in North America, which is the world's largest farm machinery market. To achieve profitability we need to increase our penetration; indeed, before the adverse publicity concerning refinancing erupted in August 1980, our market share in the United States was rising. As I've suggested, we are committed to increasing our share in both the U.S. and Canada. And with the implementation of our strategic plan, we will do it.

INTERVIEWER. Mr. Campbell, the strategic plan indicates a great deal of interest in the LDC's. How will the company expand in those countries in the light of the risks?

MR. CAMPBELL. We will fill an important role by helping to meet the enormous needs of the developing nations over the next decade in the areas of agriculture, agriculturally-related industries and rural development. Despite the world-wide recession in farm machinery markets in 1980, MF gained significant ground in the lesser developed countries. In the African LDC's, for example, we increased sales by 50 per cent.

Naturally, our strategic plan recognizes the high level of uncertainty which exists in the developing countries. Clearly, those countries with good growth potential, reasonable prospects for economic and political stability, and the ability to manage their foreign debt responsibilities will be of greatest interest to us.

INTERVIEWER. Will that focus have any impact on the company's operations in Europe?

MR. CAMPBELL. Certainly not a negative one. Our leading position in Europe is one we are dedicated to preserve.

INTERVIEWER. Mr. Hoffman, as part of your plan for the developing countries, what does the company intend to do with its South American operations, some of which have been a drain on resources?

MR. HOFFMAN. Our Brazilian operations are now profitable, but our much smaller operations in Argentina are not.

In the longer term, we intend to decrease our equity position in both countries to a minority while at the same time maintaining the high market penetration Massey-Ferguson and Perkins products enjoy throughout Latin America.

INTERVIEWER. Mr. Hoffman, there have been some press reports that the MF product line is well behind the competition. Is this true?

MR. HOFFMAN. Not at all. MF is very competitive. We are world leaders in tractor sales. Second in combines. Number one in diesel engines. Our high-horsepower four-wheel-drive tractors, introduced two years ago, are technological leaders and are being very well received in the North American market. Our product line is the best we've ever had.

INTERVIEWER. But Mr. Hoffman, some MF competitors are spending considerably more on research and development as a percentage of sales than Massey. Isn't the company going to be left behind?

MR. HOFFMAN. It's true that some competitors are spending more on R&D in percentage terms than we are. But we're staying up with competition by focusing our product development on our main lines. Also, we have a history of developing new technology jointly with our suppliers, with new electronic systems being an excellent example. The cost of such programs is reflected mainly in our unit costs and not in our expenditures for research and development.

INTERVIEWER. Mr. Felker, how does the uncertain energy outlook for the 1980's affect the company, especially Perkins?

MR. FELKER. At Perkins the uncertain outlook for energy supplies is definitely an opportunity. First, we have programs to increase the power of our engines through turbocharging while reducing fuel consumption. Secondly, as the variability of fuels is likely to increase in the years ahead, we are actively developing engines that will both maintain efficiency and tolerate degraded fuels or various fuel mixtures. The results on these engines to date are very encouraging, and should lead to Perkins being specified as a preferred power source not only in the 1980's, but also well beyond.

For the Company as a whole, the technology Perkins is developing will prove to be a major benefit.

INTERVIEWER. Mr. Felker, can you comment on references to opportunities for Perkins in North America in sectors that are usually reserved for gasoline engines?

MR. FELKER. Yes. The largest volume opportunities are in the passenger car and light commercial vehicle sectors, but industrial applications are also important. Diesels offer outstanding fuel economy, but the advantage of gasoline engines in those sectors has always been their lower production cost. However, we at Perkins have now largely developed the technology for manufacturing diesels using existing gasoline engine production facilities. We are talking with a number of our customers and other possible interested parties to see if we can put together a viable commercial project in this area. We believe it has excellent potential.

INTERVIEWER. Mr. Ruth, what is the basis for the company's claim that it has great strength in marketing and distribution?

MR. RUTH. Our distribution system is one of the largest and most extensive in the world for agricultural and related machinery. It comprises approximately 5,000 MF and 2,000 Perkins dealers and distributors. These are 7,000 independent businesses. Virtually all of them have strong local ties and in-depth knowledge of their local markets. Most importantly, both we and our dealers and distributors have a well-developed sense of mutual loyalty. We've had tremendous support from them through the years and above all in recent months.

This strength of the Company was well recognized in the development of our strategic plan. We will focus increasingly on our distribution and marketing role in the years ahead.

INTERVIEWER. Mr. Laurenzo, will your lenders and other financial institutions allow the company to go ahead with its strategic plan?

MR. LAURENZO. Most of them have already seen the detailed plan in connection with our refinancing effort, and no significant changes were proposed. It's a good plan and has gained support because it's the best future for Massey-Ferguson.

INTERVIEWER. Mr. Rice, with the governments providing an equity guarantee of $200 million, are they going to take an active role in management, including approving your strategic plan?

MR. RICE. They will not take an active role but they'll monitor management progress for as long as the guarantee is outstanding. We've agreed to provide an annual review to the governments of an updated five-year strategic plan, including an indication of our investment intentions, as well as to fulfill some specific commitments we referred to earlier and which are entirely consistent with the Company's planning.

INTERVIEWER. Mr. Rice, you exude a great deal of confidence. You are often accused of being an optimist. How do you react to that?

MR. RICE. Of course I'm an optimist. Pessimists don't build companies, especially industrial ones. And besides, I'm a naturally enthusiastic individual.

INTERVIEWER. And although the refinancing plan isn't formally completed, you're obviously enthusiastic about the company's future.

MR. RICE. I am. We've put in two and a half years intensive effort and have come through a tough period remarkably well. World agriculture is now headed for an upswing, especially in the areas where the Company is strongest. Our product line is highly competitive. Our manufacturing capabilities are now up to or fast approaching acceptable standards. Our dealer organization around the world is superb. Moreover, we're nearing the end of our rough period and we have a comprehensive plan to meet the challenge of the decade ahead. I'm very positive about our future.

REVIEW OF OPERATIONS

Recessionary markets through most of the year...Inflation, high interest rates...
North American production curtailed...Markets in some developing countries up...
POWERPART range enjoys strong start

WORLD ECONOMY AND AGRICULTURE IN 1980

THE WORLD ECONOMY IN 1980 continued in a slump brought on mainly by the new round of huge oil price increases starting in early 1979. GNP in the developed nations grew only about one-half of one per cent while their oil import bill added several percentage points to already high rates of inflation.

In the U.S., high interest rates and the Soviet grain embargo, followed by severe drought conditions during the summer of 1980, combined to exert a major depressant effect on the market for agricultural machinery.

During the year the European economies followed the U.S. into recession. In the U.K., inflation peaked at almost 22 per cent and manufacturing output fell nearly eight per cent for the year. Economic conditions in the developing countries also suffered from inflation, heavy foreign indebtedness, and recession in their export markets in the developed countries.

WORLD AGRICULTURE IN 1980 fared relatively better than the world economy as a whole. Total production of wheat and feed grains for the year is estimated at 1,135 million metric tons, the third largest crop in history although still 1.1 per cent below 1979. The U.S. crop was 12 per cent lower than expected, and output in the U.S.S.R. was only marginally above the poor harvest of 1979.

Consumption of wheat and feed grains in the crop year 1980/81 is estimated at a record level, about 40 million metric tons in excess of production. Combined with similar circumstances in 1979, carry-over stocks will be reduced to the scarcity levels experienced in the years 1972-1975.

The tightening of world grain and soybean supplies resulted in significant increases in farm commodity prices and a substantial strengthening of farm income in the traditional exporting countries in the second half of 1980.

FARM AND INDUSTRIAL MACHINERY

WORLD-WIDE SALES AND PRODUCTION

The Company's wholesale sales of farm and industrial machinery in 1980 were $2,533 million, an increase of three per cent from 1979.

World-wide production of Massey-Ferguson agricultural and industrial tractors, including those made by Associates and licensees, was 138,800 units, or three per cent below 1979, down most dramatically in North America and the United Kingdom. Of the total, production of industrial tractors, which are derived from farm tractor components, was 6,900 units in 1980, down 37 per cent.

Production of combine harvesters was 10,500 units, down 19 per cent from 1979. Reflecting the depressed market conditions in North America, production at the Company's largest combine factory, at Brantford, Ontario, was 7,400 units, down 17 per cent from 8,900 units in 1979.

On a world-wide basis, the Company held its market shares for the year for both tractors and combines.

FARM MACHINERY

NORTH AMERICAN OPERATIONS

During the important spring selling season, higher production costs, tight credit, and declining commodity prices following the U.S. Government's partial embargo on grain exports to the U.S.S.R. combined to depress farmers' purchasing power to a 47-year low. The annual rate of industry retail sales of farm tractors in North America plunged to 40 per cent below that of the previous year. For 1980 in total, industry agricultural tractor sales were down 13 per cent, to well under 200,000 units.

The widespread drought during the summer occurred in areas of traditional Massey-Ferguson market strength, and therefore had a particularly severe effect on the Company's sales. Moreover, the rapid fall harvest had an unfavourable impact on sales of new combines. Widespread publicity concerning the Company's financial difficulties also put MF dealers at a competitive disadvantage.

These various factors combined to reduce sales of Massey-Ferguson agricultural tractors in the 30–99 horsepower range significantly. These results were offset to an extent by sales gains of the new four-wheel-drive line of large tractors and the compact tractors introduced in 1979. However, the net effect was that MF's total agricultural tractor sales fell 15 per cent versus 1979, or slightly greater than the decline for the industry. Sales of combines also fell sharply, while parts sales to dealers increased five per cent.

Declining sales made it necessary for most farm machinery manufacturers to curtail production in 1980. With minor exceptions, the Company's annual summer shutdowns at its manufacturing operations in Canada and the United States were extended substantially.

The Massey-Ferguson dealer organization, with more than 1,700 dealerships in the U.S. and Canada, was highly supportive of the Company throughout this difficult year. Late in fiscal 1980, an independent survey of MF dealers in the U.S. indicated that only seven per cent felt pessimistic about the viability of Massey-Ferguson as a major supplier to them, while fully 93 per cent expressed confidence in the future of the Company.

EUROPEAN OPERATIONS

The harvest was at record levels in the major markets of the United Kingdom, France and West Germany, and most arable crops were of good quality. However, falling incomes in industry reduced the demand for foods, and the farming sector continued to suffer from sharply rising input costs.

With high interest as an additional factor, the demand for farm machinery fell widely compared with 1979, which itself was not a good year. For Europe in total, the tractor retail market was down about 15 per cent in unit terms. However, the trend to higher horsepower and four-wheel-drive continued and Massey-Ferguson continued to expand its model range to capitalize on this change. The retail market for combines fell ten per cent, as it did also in 1979.

United Kingdom. Farm income is estimated to have fallen 24 per cent on average during 1980. High interest, inflation, a modest 1980 EEC price settlement and other factors combined to reduce the tractor market by 25 per cent – the largest percentage drop in any major European market.

Massey-Ferguson succeeded in improving its penetration by 1.5 per cent and was the leading brand name for the year.

The combine market fell an estimated 13 per cent, although again Massey-Ferguson improved its penetration, in part due to a highly successful post-season sales promotion program.

France. Agricultural output reached generally good levels with a record grain harvest. With less adverse economic conditions than in the United Kingdom, the machinery market was not as seriously affected. Industry sales of tractors and combines were down nine and 12 per cent respectively. Massey-Ferguson penetration remained close to the 1979 level for tractors but improved to 11 per cent for combines.

The transfer of combine harvester production from the Kilmarnock, Scotland, plant to Marquette, France, was completed successfully, and the new MF 530 was launched in a number of markets in time for the 1980 harvest.

West Germany. As elsewhere in Europe, agriculture has not escaped the cost/price squeeze in spite of the country's lower rate of inflation. This contributed to the largest decline ever recorded in tractor demand, nearly 20 per cent, and a fall of about ten per cent for combines.

Disappointingly, Massey-Ferguson tractor penetration declined slightly as the impact of new product introductions came later than originally planned. The last two months of the year saw sharp improvement, however, with market share increasing by 12 per cent, a trend which has continued in 1981.

Following the sale of the Hanomag Construction Machinery plant in Hanover, the transfer of German Operations headquarters to Eschwege was successfully completed. Eschwege's main manufacturing activity is the production of hydraulic cylinders for Massey-Ferguson and other equipment manufacturers. Plans are in hand to increase output from 350,000 to 425,000 units a year and sales to third parties are expected to increase to 40 per cent of total production.

Italy. Due to weather conditions, the grain harvest was only average as was the output of most other farm products. In spite of high inflation, the tractor market fell by only about seven per cent, while the demand for combines increased by more than ten per cent. The Company increased its market share for both the imported Massey-Ferguson tractors and the Italian-produced Landini line.

In total the Italian factory built some 17,000 units in 1980. The crawler line of farm machinery, representing nearly 25 per cent of production, was improved by the addition of two new models.

Significant productivity increases were achieved at the Fabbrico and Como plants. At Como 35 per cent more four-wheel-drive front axles and hydraulic lifts were manufactured with the same manpower as in 1979.

WORLD EXPORT OPERATIONS

European Export Markets. Industry sales of both tractors and combines in European markets other than those described

above declined further in 1980 – tractors by about 12 per cent and combines by about 15 per cent. This was the result largely of increased costs accompanied by only small commodity price increases. Conditions varied from market to market, with Denmark and Ireland particularly severly affected, while others such as Austria, Portugal and Switzerland held at their 1979 levels.

Massey-Ferguson's tractor penetration in most Scandinavian markets improved, as it did also in Holland, Switzerland, and Austria. Combine and baler penetrations held at their previous levels.

Asian and African Export Markets. Industry tractor sales were down substantially due to the world-wide recession. Exports from the largest traditional supplier, the United Kingdom, were considerably reduced, again owing to the strength of the pound.

Nevertheless, Massey-Ferguson did exceptionally well in these circumstances, and increased tractor shipments to these markets by about 50 per cent against the low 1979 levels. Although at a reduced level, sales were maintained to all the traditional markets with substantial contracts for some six markets in Africa and the Middle East making up the significant increase over-all.

Latin American Export Markets. The demand for agricultural machinery in Central America has been declining due to the political turmoil in that region, while the markets in other parts of Latin America also served by distributors have held steady. In total, Massey-Ferguson's 1980 sales in real terms held even with 1979.

SOUTHERN HEMISPHERE OPERATIONS

Brazil. Industry sales of agricultural tractors rose ten per cent to 50,500 units, with a particularly strong first half. This was a result of good harvests and attractive guaranteed crop prices, partially offset by the restriction of rural credit and sharply higher input costs for farmers. Despite operating on a cash basis, Massey-Ferguson continued to hold its dominant market position with a leading 33 per cent. The year saw strong demand for the newly introduced MF 295/296 100-horsepower model tractors and the MF 5650 combine harvester.

The Company's farm machinery and engine activities were merged to form a new joint company, Massey Ferguson Perkins S.A. This has facilitated the use of common functions and is resulting in substantial savings.

Given a questionable economic outlook but with preferential support for the agricultural sector expected to continue, farm machinery sales are likely to remain at about the same level in 1981.

Argentina. The Government's continuing battle with inflation combined with a severe drought once again left the market at about 25 per cent of 1976 sales or approximately 7,500 units – for the third year in succession.

Due to a change in the Government's tariff policies, several companies began selling Brazilian-produced tractors in the country. Massey-Ferguson also switched its sourcing to Brazil, but due largely to the increased competition, the Company's market share for agricultural tractors fell from 32 to 22 per cent. Little change in market size is expected in 1981.

Australia. A severe late season drought reduced farm income and produced a price sensitive market in which Massey-Ferguson could not be fully competitive due to the high cost of the Company's imported products from the U.K. While Massey-Ferguson's agricultural tractor penetration for the total market dropped two per cent as a result, the Company continued to hold its market leadership in the under-80-horsepower sector. The Company also scored continued success with its MF 305 cane harvester, which gained a 50 per cent market share.

ASSOCIATES AND LICENSEES

Local assembly, or manufacture, of Massey-Ferguson farm machinery continues to be a successful form of operation in certain countries, either through Associate companies or on a licensee basis. Associate and licensee relationships continued successfully in 1980 including in those countries where political or economic difficulties occurred, such as in Poland. During 1980, the two affiliated companies in South Africa and Spain changed their relationship with Massey-Ferguson. Extensions and expansion of projects continue to be negotiated in India, Pakistan, Saudi Arabia, and Turkey.

India. Tractors and Farm Equipment Limited enjoyed a further profitable year of operation, and tractor production reached 9,000 units. Plans are under consideration to increase production in a new plant in the Delhi region to a minimum of 5,000 units per annum.

Mexico. Difficult climatic conditions and tight credit resulted in a modest increase in industry sales. Sales of our licensee, Agromak S.A., declined 25 per cent from 1979 due to a relative lack of success in selling through Government agencies.

Steps have been taken to correct this deficiency, and with new economic plans announced by the Government to stimulate the agricultural sector, sales of Massey-Ferguson farm machinery are expected to improve markedly in 1981.

South Africa. A restructuring of Massey-Ferguson (South Africa) Limited reduced the Company's holding from 51.3 per cent to 24.9 per cent. The new organization was renamed FedMech Holdings.

Due to record crops and higher commodity prices, industry sales of tractors increased substantially during the year, to a total of 15,300 units for the nine months ending December 31. FedMech increased its market share to 24 per cent.

Spain. Sales of Massey-Ferguson tractors for the year were 3,800 units, representing an 11.5 per cent penetration of the local market. This share is lower than in recent years due to increasing imports which are the result of Spain's progressive integration into the EEC.

During 1980 Massey-Ferguson sold its shareholding in Motor Iberica S.A. The Company retained its technology licence and distribution agreements with MISA and the two companies will continue to collaborate in the manufacture and sale of farm machinery in Spain. This should permit a stronger base to compete against imported machinery.

INDUSTRIAL MACHINERY

Massey-Ferguson's line of industrial machinery includes industrial tractors, tractor-loaders and tractor-backhoe-loaders, all having a high degree of interchangeability of drivetrain parts and engines with agricultural tractors. Industrial machinery is used widely in most construction work, particularly home building, as well as in landscaping, property maintenance and materials handling.

North American Operations. The economic recession severely depressed housing starts in 1980, which were off 29 per cent in the U.S. and 15 per cent in Canada. Largely as a result, the demand for industrial wheel-tractors fell a full 33 per cent in

the North American market. Massey-Ferguson's sales, due to the additional factors affecting the Company, fell close to 40 per cent.

European Operations. The impact of deepening recession in Europe on the demand for industrial tractors varied by market. Demand was down about 23 per cent in the United Kingdom, the largest market, which accounted for about one-third of total European demand. Massey-Ferguson did well to maintain its high penetration in highway tractors, although there was a drop in tractor-digger-loader share due to short-term supply problems. These problems were associated with the factory rationalization program in the U.K. and had been resolved well before year end.

In West Germany, demand held up at high levels. Massey-Ferguson remained number one in this important sector, selling an all time record number of units.

In France and Italy, markets remained at the 1979 levels. A new industrial crawler manufactured in Italy was introduced and sales in the domestic market exceeded 300 units.

World Export Operations. European export markets as a whole recorded a fall of 14 per cent compared with 1979. Massey-Ferguson maintained its penetration at 1979 levels despite supply problems. In the export markets of Africa, Asia and Australasia, sales of industrial tractors increased by about 19 per cent due mainly to increased activity in the Far East.

In the Latin American distributor markets, Massey-Ferguson's sales were 50 per cent above the previous year due to industrialization programs.

Southern Hemisphere Operations. In Brazil industry sales increased 25 per cent due to improved economic conditions in the second half of the year. The Company's sales increased although considerably less than for the industry as a whole. In Argentina, Massey-Ferguson improved its penetration in a small market, while in Australia the Company's share declined by three per cent as industry sales held at the level of 1979.

ENGINES

WORLD-WIDE SALES AND PRODUCTION

Sales of Perkins engines to unaffiliated customers in 1980 were $599 million, an increase of 19 per cent over 1979, and intercompany sales to Massey-Ferguson were $233 million, an increase of four per cent. Total world production by Perkins, its Associates and licensees was 504,300 engines.

Perkins built 286,500 units at its wholly-owned plants compared with 290,500 units in 1979, and its Associate and current licensee companies produced 217,800 Perkins engines compared with 194,500 in 1979.

The year began with a high level of sales and production but was followed by the need to reduce output in the second half as the European and North American markets declined.

The demand for engines was severely affected by the depressed agricultural machinery market. Sales to existing vehicle, industrial and marine customers held firm in overseas markets, resulting in a small volume increase of engines to those customer groups.

A major activity during the year was the rationalization of manufacturing operations in the U.K., Europe and North America. This included the closure of the Hanover, West Germany plant. Other components of the program are included in the discussion below.

United Kingdom. Output from Peterborough totalled 213,900 built engines and 123,600 engine kits in 1980, an increase of seven per cent in engines and five per cent in engine kits.

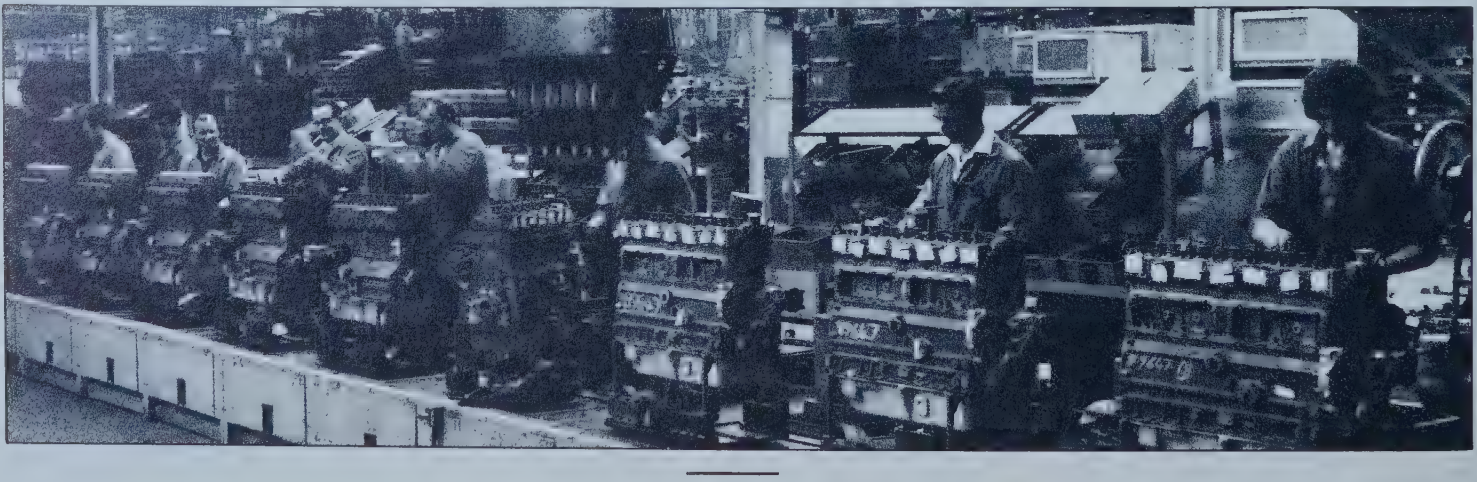
With the approval of the local trades unions, a major change in working methods to increase productivity was implemented in November 1980. A rationalization program was undertaken at the Peterborough plant which included a reduction of the total workforce by six per cent to 9,176 on October 31, 1980. An agreement was reached to reduce manpower by a further 950 positions or 11 per cent in the first quarter of fiscal 1981.

Marketing conditions in the U.K. were depressed in 1980, as described above. Although over-all volumes were down in the U.K. vehicle market, Perkins increased its percentage share by two points to 16 per cent, continuing its improvement in penetration from 11.5 per cent in 1978.

North America. For the eighth consecutive year, Perkins Engines Inc. achieved record volumes in North America, with sales in excess of 44,000 units despite unfavourable economic conditions.

Demand for smaller, high speed diesels continued to increase as more users of engines selected the diesel option in response to rising operating costs.

The consolidation of production, engineering, other technical resources and headquarters staff was completed at the Company facility in Wayne, Michigan. This has allowed the Company to sell its facility at Farmington, Michigan, while efforts continue to dispose of the vacated plant in Canton, Ohio.



Brazil. Motores Perkins production in 1980 reached 68,000 engines, an increase of nearly 20 per cent from the previous year. This included exports of 617 built-up units and 1,130 engine kits, representing an increase of more than 80 per cent in the value of exports. Total market share in Brazil increased by three percentage points to 33 per cent.

The demand for vehicle diesel engines was buoyant because of rising fuel prices and the increased transport requirement linked to the Government's agricultural expansion program.

France. Total engine reconditioning volume for both diesel and gasoline engines was 9,300 units for the year. Perkins' two previous French companies were merged under the one name, Moteurs Perkins, to effect administrative savings.

ASSOCIATES AND LICENSEES

Argentina. In 1980 Perkins Argentina, S.A. produced 18,000 engines, an increase of four per cent from 1979.

Bulgaria. Negotiations are proceeding with the Balkancarimpex organization on a new collaboration agreement and on the expansion of the factory complex. Final agreements are expected to be reached in 1981.

India. Our licensees, Simpson and Company Limited, successfully launched a truck incorporating the Perkins 6.354 engine* with a resulting significant increase in the value of our component sales supplied from the U.K. Plans were completed for the production of a Perkins 3.152 engine for agricultural applications in 1981.

Mexico. Motores Perkins S.A. produced 36,000 engines, an increase of 33 per cent from 1979. The market for diesel engines continues to be strong against the background of an expanding economy. Engine production in 1981 is forecast to exceed 40,000 units.

Peru. Motores Diesel Andinos S.A.'s engine production reached 2,200 units in 1980, an increase of 48 per cent.

Poland. The facility for three-cylinder engine production was substantially completed and output approached 1,000 engines. Production build-up will increase towards the end of 1981, along with a planned increase in local content to 70 per cent.

South Africa. The licensee project for Perkins' three-, four-, and six-cylinder engines has proceeded on schedule and production start-up is scheduled for July 1981. Factory buildings at the site near Capetown are 80 per cent complete and machine tools for manufacturing Perkins blocks have already been installed.

South Korea. Production of Perkins engines by the Hyundai Motor Company was 14,000 engines, a decline of 24 per cent which resulted from a downturn in the Korean economy.

Spain. While Massey-Ferguson disposed of its shareholding in MISA, existing engine and farm machinery licence agreements remain in operation. Engine production in 1980 was 65,500 units, about equal to 1979.

Yugoslavia. Engine production increased in 1980 to 51,000 units from 40,600 in 1979. Good relations with Industrija Motora Rakovica continue with plans for renewed licence under review.

*Note: The numbers, here and elsewhere in the Report, indicate engine size, e.g., the 6.354 model is a six-cylinder engine with a displacement of 354 cubic inches.

PARTS

Parts sales increased by seven per cent in 1980, and continued to be a significant profit contributor both to the Company and its distributors and dealers.

Operating improvements were obtained by stricter management control and expanded systems support. During the year, the number of warehouses in Europe was reduced from ten to six, while customer service standards were maintained at competitive levels. Further improvements are planned for 1981, particularly in the area of warehouse mechanization.

Construction machinery parts were successfully segregated and disposed of with minimum disruption and cost.

In North America, the Parts Division continued to lead the industry in innovative technology, particularly in order processing areas. The parts order entry system, which links 14 regional parts distribution centres with the Racine, Wisconsin, master warehouse, gives dealers throughout the market access to the centrally-controlled parts inventories. The widely used E-COM system permits dealers to order emergency parts through direct computer links.

A strong branding policy was introduced by Perkins in late 1979 and implemented world-wide during 1980. This is a new sales and marketing concept – POWERPART – designed to sharpen the competitive edge of a wide range of fast moving parts and ancillary products.

Following the success of the Perkins POWERPART actions, a Massey-Ferguson POWERPART range was launched to over 1,000 farm and industrial machinery dealers in late 1980. This concept is intended to be adopted world-wide by Massey-Ferguson in 1981 and 1982.

OUTLOOK IN 1981

THE WORLD ECONOMY IN 1981 will not show much improvement in performance over 1980. The economic recovery during the year will be feeble at best, with high inflation, restrictive policies and increasing unemployment continuing to dampen economic activity. The output of the industrialized countries is expected to increase by only about one per cent while the developing nations continue to struggle with the problems they faced in 1980.

WORLD AGRICULTURE IN 1981 will continue to out-perform the major national economies. Scarcity of supply and high free market prices for agricultural commodities will have a positive impact on farm income in the major exporting countries, and these factors will place increased demand on the lesser developed nations to increase their own food production. Continuing high inflation and interest rates will have some dampening effect on farm purchasing power, but world demand for farm machinery is expected to strengthen as the year progresses. With the factors in place for recovery of the agricultural machinery markets late in the year, demand is expected to be strong in 1982.

STRATEGIC PLAN

In the 1980's there will be unprecedented challenges for business but perhaps also unprecedented opportunities...The Company's current businesses provide an excellent base from which Massey-Ferguson can satisfy a number of the critical demands of the decade.

MASSEY-FERGUSON in the 1980's

More than ever before, companies must be able to accommodate to change in order to succeed and even to survive. The relative stability of the 1960's and '70's has given way to an increasingly uncertain and volatile world. Massey-Ferguson's management recognizes this change in the environmental outlook, and moreover, that the lack of a long-term strategy in the past has contributed to the Company's current circumstances. In light of these factors, the Chief Executive Officer and his senior management team developed a comprehensive strategic plan to set the Company's course through the decade ahead.

In 1979-80 a staff group at Head Office, drawing on outside expertise and the inputs of MF management world-wide, brought together extensive studies of the global environment of the 1980's, the Company's competitive positions, its own capabilities, and in light of the outcome of these studies, the Company's options for the future. Equipped with these analyses, senior management developed a comprehensive strategic plan for the Company. This plan, which emphasizes flexibility in the 1980's, was subsequently approved by the Company's Board of Directors.

This section of the Report describes the world-wide environment we foresee in the coming years, the Company's competitive positions and – given the successful completion of our refinancing program – the essential strategies the Company will pursue in the decade ahead.

WORLD OUTLOOK IN THE 1980's

By early in the next century, the population of the world is expected to double to nine billion, with 80 per cent of the world's people located in the lesser developed countries by 1990.

In the LDC's, governments will find it increasingly difficult to meet the needs of their rapidly growing populations. Enormous investments will be needed simply to maintain existing, inadequate living standards.

But more than population growth, it will be petroleum that will decisively shape the decade ahead. We expect dramatic real price increases in oil and for those increases to affect world economic, political and even military stability. At the same time the industrialized economies will experience slow growth characterized by painful structural changes, while many of the developing nations will find economic progress even more difficult.

The international trade, monetary, and financial systems will be severely strained through this period. World trade will expand only two to three per cent annually, and will reflect increased tendencies toward protectionism. Multinational corporations can expect to face greater risks and be subject to heavier regulation.

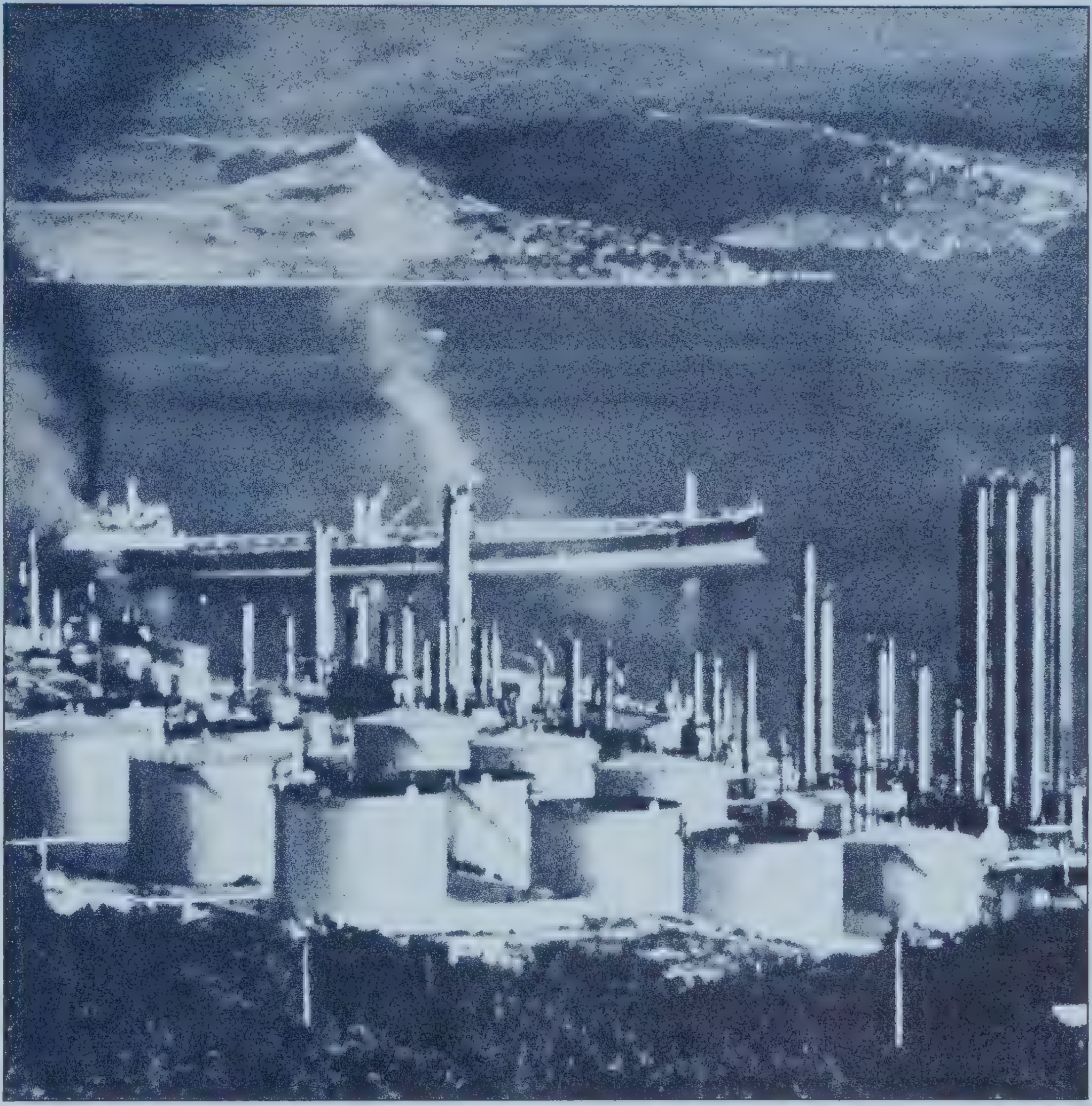
Superimposed on this economic landscape will be a likely turbulent decade in international relations. U.S.-Soviet competition is expected to increase, especially over natural resources. The decade will also see growing tension between traditional allies, and world security will become more precarious as unstable countries as well as sub-national groups acquire more sophisticated and destructive weapons and the will to use them.

This uncertain global environment and competition for markets can be expected to strain Western unity. Domestically in the West, this malaise will be aggravated by growing unemployment and an expanding sense of economic insecurity.

A prime catalyst of positive change will be technological development. The environment of the 1980's will particularly favour capital-efficient, short-pay-back technology investments, as well as energy-efficient and energy-producing technologies. In the LDC's there will be expanding interest in "appropriate technology," that is, low capital-cost, labour-

intensive, less skill-intensive technologies which are more consistent with the special needs and resources of these nations.

Within this broader picture, agriculture will continue as a priority world-wide. The process of agricultural mechanization will continue vigorously but will slow in the 1980's compared to the previous two decades. Developing nations especially will be forced to find a new and delicate balance between traditional and mechanized agriculture. Energy- and capital-efficient agricultural equipment will be sought that can be operated on domestically-produced and agriculturally-based alternative fuels.



As agricultural input costs rise rapidly in Europe and North America, farmers in those markets will demand greater capital and energy efficiency from their machinery. Despite major agricultural efforts in the Third World, the world's food supply will continue to rely heavily on surplus production in North America and Europe.

In summary, over the next decade business will be faced with unique and unprecedented challenges – continuing high inflation, diminished growth and investment, increased competition, volatile exchange rates, heavier government regulation, protectionism, and heightened demands on multinational corporations.

Yet at the same time there will be exciting and perhaps equally unprecedented opportunities – in food and agriculture, in the new demands and markets created by change, and in the enormous needs of the developing nations which must be addressed.

MASSEY-FERGUSON'S POSITIONS IN WORLD MARKETS

In light of the rapidly rising input costs for agriculture foreseen in the 1980's, we expect the demand for farm machinery to reflect a shift in focus to the more efficient use of resources.

In North America, we expect the harnessing of higher horsepower to be matched with the improved application of that horsepower. In Europe, where political pressures limit the growth in farm size, the moves to improved application of horsepower will reinforce the demand for advanced machinery specifications. In the LDC's the greatest demand will continue to be for rugged equipment in the low- and medium-horsepower ranges.

In its world-wide markets for farm equipment, Massey-Ferguson operates in several differing competitive environments.

In North America a few large companies dominate the marketplace, most notably John Deere and International Harvester. These two very competitive companies can be

expected to continue devoting substantial resources to enhance their strong positions in this highly valued market. In North America, Massey-Ferguson over-all holds an unprofitable third position but with first or second position in the markets for 30-to-90-horsepower tractors and combine harvesters. In the past the Company has lacked competitive high-horsepower tractors, but Massey-Ferguson is now fully

competitive in this market up to 375 horsepower.

In the European market, where the Company holds the leading position, competitive challenge comes from a combination of the major multinational companies and a number of national manufacturers. The maturity of the European market coupled with fierce competition for the export markets of the lesser developed countries has resulted in a serious problem of manufacturing over-capacity in Europe.

Massey-Ferguson and other Western companies are coming under increasing competition from East Bloc nations and Japan, particularly in the LDC's. In the developing nations, however, the Company's long-established presence, well-proven product, and extensive distribution network continue to maintain Massey-Ferguson in premier place.

In the 1960's and 70's, the establishment by the Company of local manufacturing operations in Latin America helped promote Massey-Ferguson to a dominant position in those vibrant markets. Despite our over-all 30 per cent market share in farm machinery, however, volatile political and market conditions have led to highly variable and recently unsatisfactory profit performance.

Looking at Massey-Ferguson on a global basis, the Company's major strengths in farm machinery are its world-wide distribution network, customer acceptance and manufacturing facilities; its industry leadership particularly in the 40-to-70-horsepower tractor range; its highly competitive new 2000 and 4000 Series high-horsepower tractors, and its strength in the North American combine and small-tractor markets. Over-all, the Company is the West's largest producer of farm tractors.

At the same time, the Company recognizes the effect of its financial strength relative to competitors, and problems in the areas of manufacturing efficiency and product cost. The Company has developed programs to counteract these conditions, and our assessment is that Massey-Ferguson's strengths provide a strong competitive basis for profitable development of its major business of farm machinery in the decade ahead.

In the markets for industrial machinery in the 1980's, we expect demand in the developed countries to increase only moderately, while in contrast, demand in the lesser developed countries is expected to increase strongly to meet the enormous needs for infrastructure development.

The Massey-Ferguson line of industrial tractors and tractor-backhoe-loaders has achieved a strong position in the European markets, holding one of the top three positions in most countries and competing well with JCB, J.I. Case and Ford. Market penetration is even stronger throughout the LDC's. In North America, the Company's withdrawal from the construction machinery business weakened our market performance in industrial machinery over the past two years, but vigorous programs are in place to rectify this situation.

In diesel engines, a major line of business for the Company, we expect the world-wide industry growth rate of about seven per cent per year in the 1970's to increase in the energy-squeezed 1980's. This is due to the inherent fuel economy of diesel engines and their ability to operate efficiently on alternative, including degraded, fuels.

The Company's Perkins Engines division is the world's largest supplier of proprietary engines to original equipment manufacturers who do not produce any or all of their own engines. Through Perkins' own production and that of its associate and licensee organization, the Company manufactures an annual volume on the order of a half a million engines. Perkins offers a multi-application range of engines able to meet virtually any customer's requirements in the 30-to-300-horsepower range.

Among Perkins' main competitors are Deutz, which is strong in the industrial market in Europe; Isuzu, strong in automotive and light industrial applications and attacking the U.S. and Pacific Basin markets: and Ford, which offers competition particularly in Europe. Other companies compete more strongly in limited territories, such as Fiat in Italy and France. In North America, General Motors and Cummins have strong commitments to automotive diesel engines.

Perkins is well placed to take advantage of the anticipated industry growth because of its product range, variety of applications, world-wide manufacturing facilities, world market coverage, and parts and service network. Its leadership in diesel technology and reputation as a manufacturer of high quality products provide major opportunities in the 1980's.

THE COMPANY'S STRATEGIES FOR THE FUTURE

Based on intensive analysis and consideration of the above factors, the management of the Company established a set of objectives and strategies which foresee a significant evolution of Massey-Ferguson through the decade ahead, particularly in the latter half of the 1980's. In a decade that will see emphasis on food production, infrastructure development, and energy-efficient technologies, Massey-Ferguson's current world-wide businesses provide an excellent base from which to satisfy a number of the critical demands of the decade.

At the same time, the major thrust of the Company's actions over the next five years will be to achieve financial strength in its existing lines of business. A fundamental objective of the Company, therefore, is to protect its current market strength by continuing and improving its ability to

satisfy the mechanization needs of world agriculture, and in its third-party engine business, the need for fuel-efficient and fuel-tolerant power units for the 1980's.

To achieve this objective, Massey-Ferguson will engage in several new product developments, a number of joint ventures and other forms of association with other companies, the arrangement of majority local ownership of large-scale operations producing its products in certain LDC's, additional rationalizations of the Company's facilities, and also, if an initiative we will undertake is successful, the rationalization of part of the farm machinery industry in a major part of the world. The Company's evolution is then expected to see significant diversification later in the decade.

In the important North American farm machinery market, Massey-Ferguson's objective is to gain a strong third position in order to create a sufficient sales base for profitable operation. This can be achieved with the Company's now fully competitive range of large tractors as well as its traditional strengths in combines and 30-to-90 horsepower tractors.

The Company's strategy in North America will likely involve associations with one or more other companies, and hinges on support for the dealer network in this market.

In Western Europe, Massey-Ferguson's objective is to maintain market position while focusing on the problem of profitability that has resulted mainly from over-capacity in the industry. That over-capacity is approximately 25 per cent in the production of tractors and 42 per cent in the production of combines.

Given these circumstances and the outlook for the decade, the Company considers that either a major rationalization or a severe shake-out of the Western European farm and industrial machinery industry is inevitable. As the leading company in the industry, Massey-Ferguson will seek to initiate a sensible reorganization of industry production facilities in Europe.

To succeed in this effort will require a careful determination of potential combinations of componentry, product interchanges and other arrangements, including what is achievable given the Company's and its competitors' intentions. But such an effort, if successful, would result in an improved allocation of resources in the European industry. This would be of benefit both to producers and customers through lower production costs. This type of industry-wide approach has proved effective for the European automotive industry.

In Latin America, given our manufacturing presence and market domination, but especially in light of the political and economic outlook, the Company's objective is to retain a strong participation in the region from a sales and marketing standpoint. It intends, however, to reduce its near 100 per cent ownership of the operating companies to a minority position through substantially increased local equity participation.

In the rest of the world, the Company's strategies for the farm and industrial machinery markets are coloured by climatic, agricultural, industrial, economic and political considerations. Each market poses different problems and different opportunities therefore demanding tailored approaches. As part of our plan, Massey-Ferguson will continue to expand its prime position in these markets, enhancing a strong and profitable presence both through improved marketing and, where appropriate, the licensing of technology.

This thrust is partly in light of the fact that our diversification efforts, referred to below, will be undertaken with a view to the major opportunities Massey-Ferguson anticipates for the Company in the developing nations.

In respect of our engines business, the objective for Perkins is to set the pace with technology advances and to meet the cost of this independently of the rest of the world-wide Company. The implementation of this objective will, consequently, depend on Perkins' ability to realize new sources of finance, which may involve association with other companies or investors. We will be establishing Perkins as a separate entity partly for that purpose.

Perkins' long-range business plan calls for it to take full advantage of an engine market that will enjoy a greater vitality in the coming decade. To meet quantified Company objectives. Perkins will enhance existing products by methods such as further combustion development and increased use of turbocharging. It will continue actively to pursue opportunities presented by the dieselization of gasoline engines, and will further develop power units, based on exclusive technical achievements, that are capable of operating on a variety of fuels, petroleum-based and otherwise.

A major development of the next decade will be a multi-application family of Perkins engines in the medium power range, which will be launched with a six-cylinder version designed to extend the top end of the Perkins inline range.

In the over-all, Perkins' strategy is aimed at maintaining and increasing the strong market share enjoyed generally in all application areas including agricultural, vehicle, industrial and construction equipment and marine craft world-wide.

While the major thrust of Massey-Ferguson's actions over the next five years will be focused on achieving financial strength in existing businesses, the Company at the same time will prepare for diversification. This diversification will be into areas which after detailed investigation are shown to offer real opportunities by building on the Company's skills and resources. Low entry cost will be a key factor in the selection process. and the Company's involvement primarily will be of a marketing or service nature, especially in the initial stages, in order to take maximum advantage of Massey-Ferguson's world-wide distribution strength.

For competitive reasons the above description does not reveal our strategic plan in extensive detail. However, it can be noted that our plan was reviewed confidentially by consultants acting on behalf of the Company's lenders and the Governments of Canada and Ontario as part of the discussions regarding our major refinancing program. We believe their approval of our refinancing in principle can be viewed as an indication of confidence in the fundamental directions we have established for the Company.

For the first time in its history, Massey-Ferguson has a formal and comprehensive strategic plan, and one with built-in flexibility in the event of changing conditions. The Company has charted its course for the decade ahead.

MF

moving forward

FOUR FUNCTIONS

Head Office functional operations have been strengthened in the last two years...Company has increased product planning and development activities...MF is building on its tradition of engineering excellence...functional activities are supportive of the strategic plan.

Over the last two years Massey-Ferguson has significantly strengthened Head Office functional operations which have responsibilities throughout the world-wide Company. This feature section focuses on the roles of four functional operations – Product Planning, Engineering, Manufacturing and Marketing. These functions will play an increasingly important role in the Company's direction through the 1980's.

1. PRODUCT PLANNING

With the creation of Product Planning as a separate division in 1979, the Company increased the central visibility and control of its product planning and development activities. This was done to ensure that crucial product projects were given the necessary priority in the face of the Company's difficult financial circumstances.

Today Massey-Ferguson has the strongest over-all product line-up in its history.

In the under-30-horsepower tractor range, the Company is well represented with a successful line introduced in 1979. Continuous upgrading of the 30-to-90-horsepower tractor range, historically a Company strength, has maintained Massey-Ferguson's position as the world's largest producer in this category. This tractor range is sold successfully in the major markets of the world in different configurations and levels of specification. Recent upgrades of this product include synchromesh, 12-speed gearboxes and new four-wheel-drive models.

In tractors of over 100 horsepower, the last four years have seen the Company launch three new product ranges. The first was the North American 2000 Series, in the 110-to-200-horsepower sector, which is now gaining a wide acceptance. The second range launched was the European 2000 Series. This range currently covers the 90-to-130-horsepower sector, the heart of the high power category in Europe, and has already gained market acceptance as an industry leader. The third range introduced was the 4000 Series, which are four-wheel-drive articulated tractors in the 200-to-375-horsepower category and feature electronic draft control pioneered by Massey-Ferguson. All of these tractors offer a high level of specifications and have been accepted as front-runners in the industry.

In combine harvesters, over the last four years the Company's long successful line has been upgraded in every sector. In Europe, the range of small combines was strengthened with the introduction of two new models in 1978, and the higher range is being improved with significantly upgraded models. Already launched is the MF 530 which contributed to our market share increase in 1980. In 1981 the Company will introduce the MF 560, a higher power and specification version of the 530, and at the end of the year, the MF 660, which is the largest model of the same family.

In North America, the MF 540 and 550 are recently introduced upgrades of the Company's successful medium size combines. At the larger end of the market, Massey-Ferguson in 1981 has introduced the MF 850 and MF 860 models, which incorporate further improvements including increased harvesting capacity to ensure our strong position in the important North American combine market.

In addition to these major new products, the Company continues to develop a wide range of hay balers and other general machines and implements. These products offer the MF distributor and dealer a full line of farm machinery.

In regard to industrial machinery, the Company is introducing a four-wheel-drive backhoe-loader presently in Europe, and has under development new products incorporating improvements to backhoes, loaders, instant reverse transmissions, and cabs.

The Perkins line of diesel engines continues to be strengthened. To improve competitiveness in the 1980's, a major commitment has been made to product rationalization, leading to lower costs through a reduction in the variety of models produced.

The further development of turbocharged engines is also a major thrust of future planning policy and of the completion of the successful 4.236/6.354 range, which forms the core of Perkins' product range and world-wide sales.* Turbocharging is an efficient means of improving fuel economy and expanding the power range offered from the Company's existing product and manufacturing base. New turbocharged 6.354 vehicle engines were introduced in 1980 and a new turbo-

* See footnote on page 11 for explanation of Perkins Engines' nomenclature.

charged six-cylinder model for agricultural application will be available in 1981.

High power outputs combined with excellent fuel economy available through Perkins' "Squish Lip" technology have been utilized in the turbocharged 220-horsepower, 6.354 marine engine launched in December 1980. This will accompany the major introduction of the V8.540 marine series which, with turbocharging, will extend the Perkins marine product range to 325 horsepower.

During 1981 the Company's dedication to maintaining the quality and competitiveness of its product ranges will be continued with the introduction of a new tractor in Europe in the important 80-to-90-horsepower sector, a new family of cab tractors also in Europe, and upgrades to the powertrain of both North American and European tractors in the 40-to-90-horsepower sector.

The Company is also conducting extensive development work for new products that will take it through to the end of the century. The first such area is the tractor line in the 60-to-100-horsepower sector, where it is recognized that new design concepts will be necessary for some of the more sophisticated markets. Included in such products will be advanced transmissions, electronics, and hydraulic systems which will allow the farmer to exploit fully the new implements and farming techniques that are being developed, and also to reduce energy consumption.

A second major area of product development is in the rotary or "axial flow" combine. The Company has been testing axial flow combine concepts for several years but as yet has not judged the advantages offered by this system to justify a major launch of such a product particularly in light of major advances in conventional machine performance. Axial flow combine developments still have weaknesses in adverse crop conditions. However, the Company is continuing intensive product development work on the axial flow combine concept, particularly in the higher capacity segment of the market.

A third thrust of the Company's development plans involves a new family of engines in the 150-to-250-horsepower category which are expected to offer excellent fuel economy, durability and power delivery. Manufacturing plans for this family are being developed in parallel with discussions with prospective high volume original equipment customers.

Product Planning activities will continue to focus on the key development areas identified in the Massey-Ferguson strategic plan. While the Company will not sponsor extensive basic research, it will work closely with suppliers to ensure that the latest technologies are incorporated in Massey-Ferguson and Perkins products. In accordance with the Company's marketing strategy, the product planning effort is focused foremost on the needs of the ultimate users of its products through the decade.

2. ENGINEERING

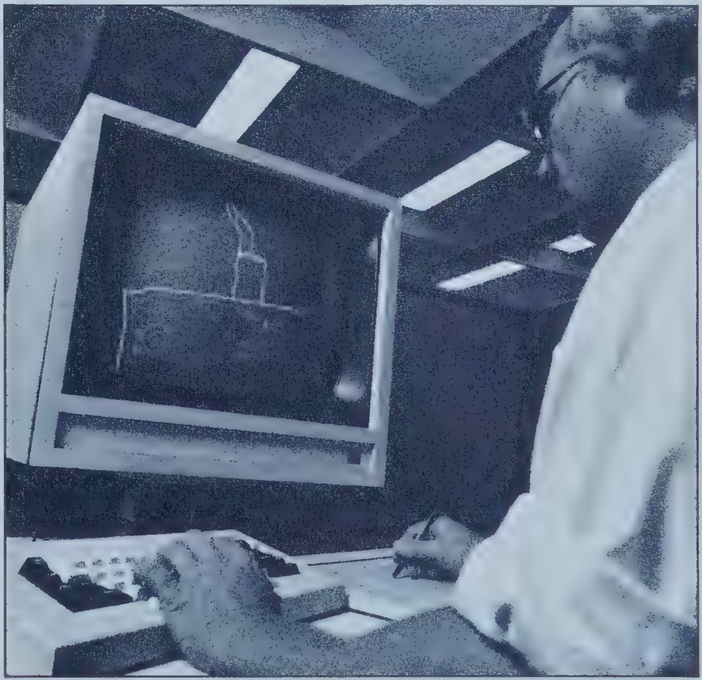
The Engineering function historically has been a major strength of the Company, carrying on the tradition established by Hart Massey in the 19th century, the Massey-Harris engineers who pioneered the self-propelled combine, and Harry Ferguson, the inventor of the modern-day tractor.

Although organizationally separate from Product Planning, Engineering has been integrally involved with the product development activities described above. Engineering focuses particularly on ensuring that the Company's strategies are fully reflected in the design and development of Massey-Ferguson and Perkins products.

A new engineering organization was introduced in 1980. The change decentralized the engineering centres to ensure a quick response to the needs of the customer. Quick reaction to rectify sales disincentives, to meet national legal and safety legislation, and to achieve cost reduction is now being achieved without disruption to the development of new products. For example, when customers complained of inadequate air conditioning in one of our tractor models, Engineering was able to respond quickly with design changes which have resulted in full acceptance of the product in the marketplace.

The world-wide Engineering organization now comprises some 2,000 engineers and support staff in nine countries. The Company's investment in engineering and product development was just under \$60 million in 1980 and is planned to exceed \$70 million in 1981.

Engineering is continuing to explore new technology areas which will sharpen the Company's competitive position and provide additional benefits to our customers. For example, the Engines Group continues its development of direct injection technology for high speed diesel engines, a significant technical advance which will offer the Company opportunity for new joint venture projects. Contacts with research organizations, governments and industry are being strengthened to ensure that the Company remains in the forefront of technological advances. For example, in Brazil and elsewhere our Engineering group is playing a leading role in developing engine capability to meet programs to promote the use of non-petroleum-based fuels.



The Company has introduced the latest technology into the engineering process. The most advanced computer-aided design is being used for the development of our tractors and engines. Interconnected mini-computers have been installed in North America and Europe to strengthen our design analysis capability. Engineering also uses mini-computers to process results from mobile instrumented laboratories and assist in laboratory "real time" testing. Applications such as finite element modeling are processed on the Company's main frame computers, which also host systems for product specification and part numbers control.

Engineering activities applied within the framework of the strategic plan will result in new generations of well engineered and tested products in the years ahead. Our objective is that these products will set new standards for specifications, per-

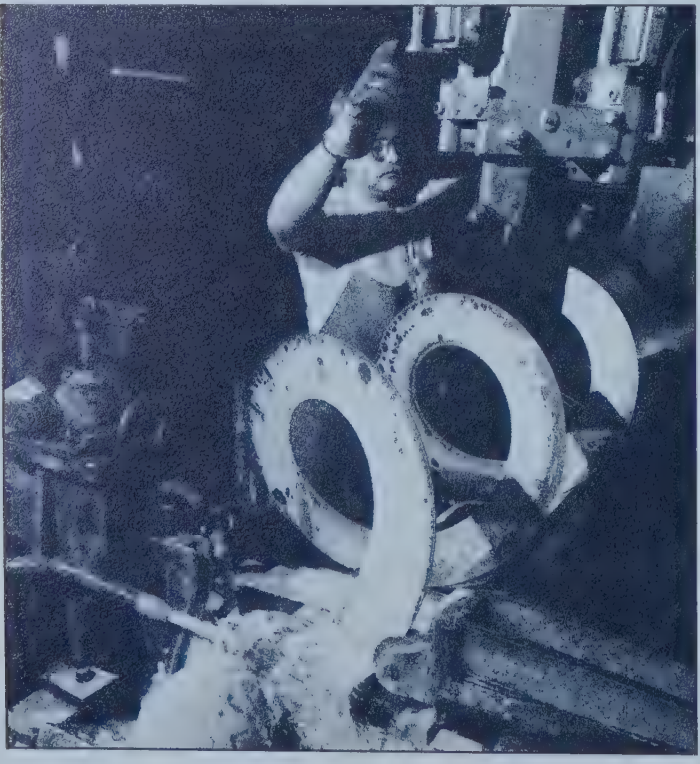
formance, reliability and serviceability, in both our current product lines and new areas such as alternative energy products which are among the diversification areas contemplated for the mid-late 1980's. Current work on the Perkins "Squish Lip" system and a new medium horsepower tractor range are only two product areas where the Company is continuing to build on its tradition of engineering excellence.

3. MANUFACTURING

The Company has a strong and diverse manufacturing capability on a world-wide basis. Massey-Ferguson along with its Associates and licensees have a total of 83 manufacturing and assembly operations in 31 countries on five continents.

As indicated last year and elsewhere in this Report, since 1978 the Company has extensively rationalized its manufacturing facilities. Ten million square feet or one-third of the manufacturing floor space of the Company and its Associates has been eliminated in the course of reducing the number of production facilities world-wide by close to the same fraction. The major components of this program are outlined in the Financial Review (p. 38). The result of the program has been to increase significantly the Company's cost effectiveness without compromising its ability to meet market demand in the foreseeable future. Although the Company-wide rationalization program has been substantially completed, additional efforts will continue in 1981.

Another significant improvement in efficiency has been achieved through the operation of a Head Office Program Committee, established in 1979. This committee ensures that the Company's widespread and interconnected manufacturing and supply system is managed with greatest possible effectiveness to achieve the objectives of an adequate supply of Massey-Ferguson products to our markets, the most effective use of the Company's manufacturing capacity, and the minimum cost of carrying all forms of inventory. The results achieved are reflected in a decrease of total average inventory as a percentage of net sales in the Company's operations from 37.7 per cent in 1978 to 33.6 per cent in 1980.



Also during 1980, productivity improvement programs were established at a number of the Company's manufacturing locations. As a result, direct labour productivity during the year improved nine per cent in the farm and industrial machinery sector. Programs were undertaken with similar results by the Engines Group. These productivity programs continue and will be extended Company-wide in 1981.

Special actions have been taken to upgrade and strengthen the Company's quality performance. When measured against a uniform quality index system, which rates products on the basis of defects and their severity, the quality of the Company's shipped products has improved 20 per cent since 1978. For 1981, a Warranty Trend Analysis System has been developed for use by all Massey-Ferguson business units which will permit management to identify quickly problems requiring corrective action. Perkins' quality action program, with a high level of cooperation from the work force, has already achieved a significant decrease in our Engines Group's warranty costs.

At Perkins, the first complex of 26 computer controlled test cells were fully commissioned in 1980. These cells have increased the throughput of engines tested per shift by a significant 160 per cent.

In the last two years the Company has also strengthened its purchasing operations, which has included the development of a global purchasing strategy. In 1980, cost reductions on materials achieved through this program reached \$28 million or about two per cent of worldwide purchases. In 1981, a newly installed World-wide Purchasing Data Base system will become fully operational in support of the Company's global purchasing strategy. Through cost reductions achieved by increasingly directing purchases to lowest cost quality sources globally, this activity is expected to save the Company over \$50 million through 1983.

Since 1978 significant cost reductions in total physical distribution operations have been achieved through Company-wide, intermodal cargo consolidations on major air, sea and land routes; aggressive development of innovative routings; design of specialized cargo packs; expeditious resolution of cargo damage problems; and development of inhouse packing capabilities.

In 1981 there will be a further integration of the Company's physical distribution operations to gain additional economies of scale. This effort will be supported by further strengthening of managerial procedures and cost controls through the use of state-of-the-art computer technology, which has advanced dramatically during the last few years.

As indicated elsewhere in the Report, the Company's manufacturing strategy for the 1980's includes participation in several joint ventures and other forms of association with other companies. The form and objectives of each of these associations will depend on the product and geographic areas involved. At the same time and in light of our projections for the external environment, the Company recognizes the risk of holding manufacturing assets in this decade, the need to maximize the Company's production flexibility, and the requirement to minimize the interdependence of key manufacturing locations. While Massey-Ferguson's planned diversification activities for the mid-late 1980's do not relate necessarily to the Company's current production capabilities, the stress on improving manufacturing efficiency will continue as a priority through the decade.

4.
MARKETING

Marketing received a significantly stronger emphasis throughout the Company with the appointment, in 1979, of a Vice President Marketing. For the first time since the 1960's world-wide marketing activities are being highlighted by the efforts of a highly professional central team focusing on sales development in major product lines in major sales territories.

It is fully recognized that the approximately five thousand Massey-Ferguson and two thousand Perkins dealers and distributors world-wide comprise one of the greatest strengths of the Company. Our direct market coverage spans 190 countries of the globe. As a high priority, the Company is further developing this key strength with a full mix of world-wide programs covering all elements of the marketing activity.

In 1980 this included several major incentive programs carried out in leading markets; a greater emphasis on communications between the Company, its sales force, distributors and customers; and the development of a long-term marketing strategy to ensure both consistent themes and a careful focus on the full range of our marketing programs.

During the year Perkins launched the POWERPART program, a major new initiative to provide maximum support for the five million Perkins engines in use world-wide.

In a difficult year that saw considerable adverse publicity about Massey-Ferguson's financial circumstances, distributor and customer confidence in the Company and its world-wide marketing strategies was demonstrated convincingly. In total, market share was maintained, and in fact was rising in several key markets until the last quarter of the year. Despite the publicity, fewer dealers surrendered their MF franchises than in any recent year; indeed, in North America, where markets were particularly depressed, no dealer cited lack of confidence in the Company as his reason for termination. In addition, the Company's distribution organization responded with strong messages of support to the Chairman of Massey-Ferguson from the Chairmen of the Export Europe Distributor Council and the Canadian and U.S. Dealer Councils.

The Company's new marketing strategies will provide greater strength still for Massey-Ferguson in the years ahead. As examples, plans are already in place to expand the new Massey-Ferguson POWERPART program covering MF branded products and associated fast-moving parts; and in France Perkins has undertaken commercial exploitation of an engine and transmission combination representing an important potential growth activity.

The Massey-Ferguson strategic plan, as it impacts on the marketing effort, however, goes far beyond this. After building on the strength of the Company's distribution system through the early 1980's, the Company in the mid-late 1980's will focus on a diversification program with new products and services that cater to the needs of its traditional customers. One example of an area for diversification would be the provision of planning, project management and technical expertise and hardware for rural development projects, particularly in the area of agriculturally-based or oriented alternative energy systems. A number of these future products and services could be marketed largely through the Company's distribution network.

Increasing world-wide concentration, with Head Office Marketing coordination in such key areas as sales promotion, parts and service and advertising, market research, distributor and dealer development, and marketing planning, will contribute to "making it happen" in the challenging decade of the 1980's.

Beyond the specific concerns of the marketing professionals, Massey-Ferguson recognizes that the basic thrust of the Company must be increasingly oriented to the marketplace in the 1980's. This orientation will become pervasive in the Company's operations and its relations with its publics.

STATUS OF REFINANCING

Negotiations with the Company's existing lenders, as well as potential investors and the Governments of Canada and Ontario, have been continuing for many months with a view to finding substantial new equity capital and restructuring the Company's existing debt.

As a result of these negotiations, agreement in principle has been reached with the holders of substantially all of the Company's institutional debt including the leaders of the various national lending groups, with the Governments of Canada and Ontario, and with certain additional banks and financial institutions on the general principles of a refinancing program which is generally described below.

As previously disclosed, the Company's need for substantial new equity capital to provide working capital, to meet cash flow needs and to finance the capital expenditures necessary to maintain its competitive positions in its businesses is urgent. The Company's consolidated debt at January 31, 1981, was approximately six times its equity (including preferred shares), which is unacceptable as a base to support the Company's business. In addition, the Company has for some time been in default with respect to various covenants and commitments in its debt instruments which could, if the Company's lenders so desired, result in the acceleration of substantially all of the indebtedness of the Company and its subsidiaries. See Note 3 to the Consolidated Financial Statements for further information. In order to permit the Company to survive, a general restructuring of the Company's indebtedness, revisions to existing financial covenants in its debt instruments, and the restoration and maintenance of profitable operations and adequate cash flows are required.

GOVERNMENT INVOLVEMENT

As part of the refinancing, the Company would issue 20 million shares of non-convertible preferred shares for Cdn. \$200 million and 25 million warrants to purchase its common shares for up to Cdn. \$12.5 million. It is contemplated that these securities would be acquired by banks and other financial institutions in Canada. Proposed purchasers for a substantial majority of the preferred shares and a smaller proportion of the warrants have been identified. Warrants to purchase an additional 25 million common shares would be issued under certain circumstances as described below. The preferred shares would be subject to mandatory redemption by the Company after ten years at the option of the holders; if less than a specified number of such shares were outstanding, redemption at an earlier date might be required. The preferred shares would also be subject to optional redemption by the Company at any time. The Governments of Canada and Ontario would agree that if any dividend were missed or the shares were not redeemed at the end of the ten-year period, they would purchase the shares at their original issue price (Cdn. \$125 million and \$75 million being their respective obligations) plus one missed dividend. The warrants would be exercisable (commencing on or about April 1, 1982) for a period of ten years from date of issue at Cdn. \$5.00 per share. Each warrant exercised before the end of the second year after the date of issuance would entitle the holder to receive one common share and one additional warrant. The additional warrant would have the same terms as the original warrant except that it would be exercisable at Cdn. \$4.00 per share until the end of the third year from the date of issuance of the original warrant and Cdn. \$5.00 per share thereafter. The warrants would not be guaranteed. The Company may be required to apply the cash proceeds received upon exercise of the warrants, a portion of the proceeds of any future equity financings and a percentage of future profits to redeem the guaranteed preferred shares. If the market price of common shares for 30 consecutive trading days during the third year or subsequent years is 50 per cent above the warrant exercise price, the Company would have the right to establish an early termination date for the warrants.

In return for the guarantees of the Governments of Canada and Ontario, the Company has made a number of commitments to the Governments. These include commitments to maintain or expand production facilities in Canada; that, subject to economic feasibility, Canada will be the focus for any major new investment in North America; that it will maintain its Canadian labour force at not less than the current 13 per cent proportion of its world-wide labour force; and that it will not reduce Canadian employment below 6,000 people, except for temporary layoffs. In addition, the Company has agreed to establish a new Engineering Research Development centre in Canada and to set up an export office to promote Canadian exports.

CANADIAN IMPERIAL BANK OF COMMERCE

The Canadian Imperial Bank of Commerce, the Company's largest lender, would convert Cdn. \$100 million of outstanding debt into convertible preferred shares of the Company and would purchase for cash an additional Cdn. \$50 million of such shares, such conversion and purchase to be made over a period ending approximately February 28, 1982. Such shares would carry a floating dividend at a rate equal to approximately one-half of the Canadian prime rate plus one-quarter of one per cent per annum and would be convertible into common shares of the Company at Cdn. \$7.50 per share. They would be subject to mandatory redemption at the end of ten years and to optional redemption by the Company at any time.

UNITED KINGDOM

A United Kingdom bank, on behalf of the United Kingdom Export Credits Guarantee Department ("ECGD"), would guarantee approximately Cdn. \$90 million of preferred shares of the Company or one of its subsidiaries, which would be convertible into common shares of the Company and would be purchased by one or more investors who have not yet been identified. These guaranteed preferred shares would also be issued over a period ending approximately February 28, 1982. They would carry a dividend at a rate to be negotiated, would be convertible into common shares of the Company at Cdn. \$7.50 per share and would be subject to mandatory redemption at the option of the holder at the end of ten years. The guarantor bank would agree to repurchase the shares at their original issue price if one dividend were missed or the Company failed to redeem the shares at the end of ten years. The credit facility made available by the ECGD would be reduced by an amount equal to one-half of the principal amount of these preferred shares.

INTEREST FORGIVENESS AND DEBT RESTRUCTURING

A substantial majority of other debt for borrowed money (excluding debt which is issued by finance subsidiaries, secured or publicly held) would be subject to an interest waiver and conversion program under which lenders would forego the receipt of all cash interest until an amount equal to 22.5 per cent of the principal amount of debt subject to this program (or 30 per cent in the case of some or all subordinated debt) has been foregone. All lenders participating in this program would receive common shares of the Company or rights to acquire common shares over the period of the interest waiver and conversion program; approximately 36 million such shares would be issued. It is anticipated that this program would result in a saving of cash and an increase in equity of approximately Cdn. $270 million.

The refinancing plan also anticipates the restructuring of a substantial majority of the Company's outstanding credit facilities and loans so as to keep credit in that amount available to the Company and its subsidiaries. Subject to the possible effects of earlier defaults under the applicable debt instruments, as finally agreed to, there would be no reduction of such credit facilities during a period of three years from the effectiveness of the restructuring. Each lender would have the right to reduce its credit facility by 25 per cent on each of the third through sixth anniversaries of the effectiveness of the restructuring, provided that no loan would be repaid faster than originally scheduled. All credit extended under such facilities would bear interest at the best rate available (as agreed to by the Company and its lenders) to prime commercial borrowers in the particular country, or the contract rate if lower. The debt restructuring aspect of the refinancing plan also contemplates that those financial convenants with which the Company and its subsidiaries would not be in compliance, and perhaps other covenants as well, would be renegotiated and that all restructured debt of the Company's subsidiaries may be guaranteed by the Company. In addition, debt of the Company's finance subsidiaries in the United States and possibly in other countries would be secured.

Oral agreements in principle have been reached with the Governments of Canada and Ontario and with most lenders with respect to the major elements of the Company's refinancing program and discussions with a view to the preparation of definitive agreements are proceeding in the various countries. In these discussions it will be necessary to negotiate and resolve many important and complex business issues and to resolve conflicts between terms proposed by various participants. It is possible that material changes or additions to the refinancing plan could result from these negotiations. In the opinion of management the progress towards refinancing achieved to date is impressive and by comparison the remaining steps appear less difficult. However, it cannot be predicted with assurance that the final steps will be completed successfully. In the event the refinancing plan is implemented as outlined above, approximately 124 million additional common shares of the Company would be issued or made subject to issuance. Each group of participants in the refinancing discussions has stipulated that its participation is conditioned upon the consummation of the entire refinancing program. In addition, the Company's shareholders will be asked at the Company's Annual Meeting on April 28, 1981, to approve a capital reduction which may be necessary for the successful completion of the refinancing (see "Proposed Reduction in Common Share Stated Capital Account" in the Proxy Statement and Circular which is being mailed to the Company's shareholders with this Report). Additional financing may be required to meet the Company's future needs and objectives.

The Company's operations have been adversely affected by, among other things, restrictions on the flow of funds among its subsidiaries imposed by certain of its lenders and by a shortage of working capital on an over-all basis. While the Company has been able to obtain some relief from these restrictions from time to time during the period of negotiations described above, its lack of adequate working capital has forced it to take cash conservation measures which have adversely affected its operating results and its market position in certain markets, particularly North America. Although the Company has obtained some interim financing from suppliers, is seeking additional interim financing from suppliers and others and is seeking relief from such restrictions pending the implementation of its refinancing, a continuation of cash conservation measures will be required.

March 20, 1981

CONSOLIDATED BALANCE SHEETS

Massey-Ferguson Limited
October 31, 1980 and 1979

(Millions of U.S. Dollars)		**1980**	1979
ASSETS			
Current Assets:	Cash	**$ 56.2**	$ 17.2
	Receivables (*Note 4*)	**968.2**	731.1
	Inventories, valued at the lower of cost and net realizable value—		
	Raw materials and work in process	**473.4**	584.3
	Finished goods	**515.5**	513.3
	Total inventories	**988.9**	1,097.6
	Prepaid expenses and other current assets (*Note 6*)	**93.0**	89.8
Total Current Assets		**2,106.3**	1,935.7
Investments:	Finance subsidiaries—		
	Shares, at equity in net assets	**168.6**	145.8
	Long-term advances	**2.5**	2.1
	Associate Companies	**19.1**	54.2
	Other	**15.6**	15.0
		205.8	217.1
Fixed Assets	At cost (*Note 5*)	**1,065.0**	1,119.4
	Less accumulated depreciation and amortization	**576.8**	550.7
		488.2	568.7
Other Assets and Deferred Charges		**27.3**	24.0
		$2,827.6	$2,745.5

On behalf of the Board:

Victor A. Rice, *Director*
J. Page R. Wadsworth, *Director*

		1980	1979
LIABILITIES			
Current Liabilities:	Bank borrowings (*Note 3*)	**$1,015.1**	$ 511.7
	Current portion of long-term debt	**60.2**	59.3
	Accounts payable	**391.1**	445.4
	Accrued charges	**402.7**	462.0
	Income, sales and other taxes payable	**12.6**	18.6
	Advance payments from customers	**11.9**	12.5
Total Current Liabilities		**1,893.6**	1,509.5
Deferred Income Taxes (*Note 6*)		**14.3**	13.8
Long-Term Debt (*Notes 3 and 8*):			
	Bonds, debentures, notes and loans	**475.3**	537.1
	Less current portion	**60.2**	59.3
		415.1	477.8
	Convertible subordinated notes	**147.0**	147.0
		562.1	624.8
Minority Interest in Subsidiaries		**4.5**	19.1
Contingent Liabilities and Commitments (*Note 9*)			
SHAREHOLDERS' EQUITY (*Note 15(d)*):			
	Share capital (*Note 11*)		
	Preferred Shares	**95.8**	95.8
	Common Shares	**176.9**	176.9
	Retained earnings (including retained earnings of unconsolidated finance subsidiaries: October 31, 1980—$110.3; October 31, 1979—$87.5) (*Note 7*)	**80.4**	305.6
		353.1	578.3
		$2,827.6	$2,745.5

(See accompanying Notes to Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Massey-Ferguson Limited (Incorporated under the Laws of Canada)
Years ended October 31, 1980 and 1979

(Millions of U.S. Dollars except per Share Amounts)		1980	1979
Net Sales (*Note 10*)		**$3,132.1**	$2,973.0
Costs and Expenses:	Cost of goods sold, translated at average exchange rates for the year	**2,568.5**	2,381.8
	Effect of foreign currency exchange rate changes*	**7.7**	18.6
		2,576.2	2,400.4
	Marketing, general and administrative expenses	**404.7**	351.9
	Engineering and product development expenses	**59.7**	58.2
	Interest on long-term debt	**71.0**	75.7
	Other interest expense	**229.9**	128.8
	Interest income	**(42.0)**	(40.3)
	Exchange adjustments	**49.9**	(24.9)
	Minority interest	**0.2**	1.4
	Miscellaneous income	**(13.5)**	(10.3)
		3,336.1	2,940.9
(Loss) Profit before Items Shown Below		**(204.0)**	32.1
	Provision for Reorganization Expense (*Note 12*)	**(28.5)**	(95.0)
	Income tax recovery (*Note 6*)	**10.1**	6.3
	Equity in net income of finance subsidiaries	**22.7**	16.6
	Equity in net income of Associate Companies		4.6
	Loss from Continuing Operations	**(199.7)**	(35.4)
	Loss from Discontinued Operations (*Note 13*)	**(25.5)**	(23.0)
	Loss before Extraordinary Item	**(225.2)**	(58.4)
	Extraordinary Item (*Note 14*)		95.4
Net (Loss) Income for the Year		**(225.2)**	37.0
Retained Earnings at Beginning of Year		**305.6**	268.6
Retained Earnings at End of Year		**$ 80.4**	$ 305.6
(Loss) Income per Common Share (*in U.S. Dollars*) (After cumulative dividends on preferred shares)			
	Loss from continuing operations	**$ (11.39)**	$ (2.38)
	Loss before extraordinary item	**$ (12.79)**	$ (3.65)
Net (Loss) Income for the Year		**$ (12.79)**	$ 1.58
	Unfavourable (favourable) impact on Continuing Operations of Exchange Adjustments and foreign currency exchange rate changes in Cost of Goods Sold	**$ 57.6**	$ (6.3)

*This item is the difference between cost of goods sold translated to U.S. dollars at average exchange rates and such costs translated at historical rates.

(See accompanying Notes to Consolidated Financial Statements)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Massey-Ferguson Limited
Years ended October 31, 1980 and 1979

(Millions of U.S. Dollars)		**1980**	1979
SOURCE OF FUNDS	Disposal of investments in Associate Companies and changes in long-term advances to finance subsidiaries	**$ 41.3**	$ 29.1
	Proceeds on disposal of fixed assets	**34.1**	31.1
	Extraordinary item (less $31.4 in 1979 not affecting working capital)		64.0
	Proceeds from long-term debt issues		35.8
Total funds provided		**75.4**	160.0
USE OF FUNDS	Funds used in Operations (*Note 15(a)*)	**168.4**	30.0
	Reductions in long-term debt	**67.1**	59.0
	Additions to fixed assets	**46.2**	76.6
	Other (net)	**7.2**	(0.7)
Total funds used		**288.9**	164.9
	Decrease in working capital	**(213.5)**	(4.9)
WORKING CAPITAL			
At beginning of year		**426.2**	431.1
At end of year		**$ 212.7**	$ 426.2
CHANGES IN ELEMENTS OF WORKING CAPITAL	Current assets—increase (decrease):		
	Cash	**$ 39.0**	$ (6.3)
	Receivables	**237.1**	174.4
	Inventories	**(108.7)**	13.8
	Prepaid expenses and other current assets	**3.2**	26.0
		170.6	207.9
	Current liabilities—(increase) decrease:		
	Bank borrowings and current portion of long-term debt	**(504.3)**	(93.8)
	Accounts payable	**54.3**	(83.6)
	Accrued charges	**59.3**	(72.4)
	Income, sales and other taxes payable	**6.0**	33.4
	Advance payments from customers	**0.6**	3.6
		(384.1)	(212.8)
Decrease in Working Capital		**$(213.5)**	$ (4.9)

(See accompanying Notes to Consolidated Financial Statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 31, 1980 and 1979 (*in U.S. Dollars*)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management following accounting policies generally accepted in Canada. Except as indicated in Note 15(e), they are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. (See Notes 2 and 3.)

(b) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of all subsidiary companies except wholly owned finance subsidiaries, the combined statements of which are set out separately (see page 32). The investment in shares of these subsidiaries is presented in the Consolidated Balance Sheets at the equity in their net assets and their earnings have been included in the Consolidated Statements of Income. The Company considers that this basis of presentation is more informative than full consolidation since, among other reasons, it affords a basis of comparison with other major companies in the industry, the larger of which are U.S. based and do not consolidate their finance subsidiaries. By way of supplementary information, summarized balance sheets at October 31, 1980 and 1979 and summarized statements of income for the years then ended are set out on page 39 to show the over-all position if the accounts of the finance subsidiaries had been consolidated.

(c) Exchange Translation

The statements of companies whose accounts are maintained in other currencies have been translated into U.S. dollars substantially as follows: inventories carried at cost, non-current assets, certain prepaid expenses and deferred income taxes, and related charges or expenses, at historical rates of exchange; all other assets and liabilities, at exchange rates prevailing at the end of the year; income and expenses (other than those indicated above), at average rates for the year. Translation gains or losses are included in income.

(d) Sales and Receivables

Sales are recorded at the time of shipment to distributors, dealers and other customers. Receivables include non-interest bearing notes received from dealers, some of which mature beyond one year (subject to earlier settlement when the product is sold by the dealer). These are included in current assets in accordance with accounting practice in the industry.

(e) Investments in Associate Companies

Investments in Associate Companies (those in which the Company owns 50 per cent or less of the voting shares) are recorded in the Consolidated Balance Sheets at cost. During 1979, the Company disposed of its investments in those Associate Companies for which equity accounting was appropriate.

(f) Fixed Assets

Additions to fixed assets are recorded at cost. Depreciation of facilities is provided on a straight-line basis in substantially all of the companies, at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	10 to 50 years
Machinery and equipment	3 to 10 years

Production tooling for new products and for major product changes is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and minor product changes is charged against income at the time of purchase.

When fixed assets are disposed of, their cost and related depreciation are removed from the accounts and any related gain or loss is included in income.

(g) Research and Development Costs

Research and development costs, most of which are included in Engineering and Product Development Expenses, are expensed as incurred (1980—$43.8 million, 1979—$44.3 million).

(h) Pensions

The majority of employees are covered by government and Company pension plans. The costs of these plans are charged against income each year and include amounts for current service and amortization of past service costs. Past service costs are generally being amortized and funded over periods of 15 to 25 years. (See Note 9(d).)

(i) Income Taxes

The Company follows the deferred method of tax allocation in accounting for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) can result in deferred or prepaid taxes.

Investment tax credits are accounted for using the flow-through method.

The benefits of loss carry-forwards are generally not recognized until realized. The multinational nature of operations is such that, on a continuing basis, certain subsidiaries are incurring losses (without recognition of the potential carry-forward tax benefits) at the same time that other subsidiaries are realizing the tax benefit of previous losses. On a consolidated basis these annually recurring tax recoveries, to the extent that they do not exceed the unrecognized tax benefit of losses incurred in the same period, are not considered to be extraordinary in nature and are accordingly reflected as a reduction of current income tax charges when realized.

Dividend payments from subsidiary companies in a number of countries are subject to withholding and other foreign taxes at various rates, and in respect of certain future dividend remittances additional Canadian taxes may be payable in subsequent years.

Provision is made for the related taxes on dividends anticipated in the future out of accumulated earnings. Of the balance of unremitted earnings included in consolidated retained earnings at October 31, 1980, a portion would not be subject to tax; the remainder (estimated at approximately $71.1 million at October 31, 1980 and $121.0 million at October 31, 1979) is part of the amount that has been reinvested on a long-term basis and such taxes have accordingly not been provided.

2. FINANCING REQUIREMENTS

The Company has an urgent need for substantial new equity capital, increased interim financing for working capital requirements and revisions to existing financial covenants in its debt instruments (See Note 3). The Company is pursuing with its existing lenders and other potential investors various means of increasing its equity and improving its cash flow, and is also negotiating with its lenders for the required interim financing and for changes in various of its debt instruments. No agreements with lenders or potential investors have yet been reached and there can be no assurance that such will take place. (See Note 16(b).)

The Company's continued existence as a going concern is dependent upon its ability to restructure its financing arrangements and to restore and maintain profitable operations; however, it is not possible to predict with assurance the outcome of future operations or whether financing efforts will be successful.

3. DEBT COVENANTS

In various long-term debt agreements the Company had originally agreed to maintain "Consolidated Net Tangible Assets" at not less than 200 per cent of "Consolidated Funded Indebtedness" and

"Consolidated Current Assets" at not less than 145 per cent of "Consolidated Current Liabilities" (all quoted terms being as defined in the debt agreements, which definitions do not necessarily correspond with the accounting classifications set out in the Consolidated Balance Sheets).

During 1979, the terms of such debt obligations were renegotiated and the commitment was to maintain (a) "Consolidated Net Tangible Assets" at not less than 150 per cent of "Consolidated Funded Indebtedness" until October 31, 1980, at not less than 175 per cent until October 31, 1981, and at not less than 200 per cent thereafter and (b) "Consolidated Current Assets" at not less than 120 per cent of "Consolidated Current Liabilities" until October 31,1980, at not less than 130 per cent until October 31, 1981 and at not less than 145 per cent thereafter. At October 31, 1979, the Company was in compliance with these revised debt test requirements and, based on business conditions at that time, was confident that the improvements in operating performance that had occurred and that were expected to result from the action programs already taken or that were under way, would ensure continued compliance. Because of the negative impact on actual operating results arising from a significant deterioration in business conditions caused, in part, by rising interest rates and the Company's cash conservation measures which were initiated in response to increasing cash constraints, the Company was not in compliance with these revised debt test requirements on or after October 31, 1980.

In addition, at October 31, 1980 the Revolving Credit Agreement under which the Company's United States operating and finance subsidiaries were indebted to banks for $190.2 million and $165.4 million, respectively, requires that the U.S. operating subsidiary reduce its current borrowings, as defined, to zero for at least 45 consecutive days of each calendar year. The Company was not able to meet this requirement in 1980. Instruments relating to $32.5 million of long-term indebtedness of the United States operating subsidiary also contain such a requirement.

In addition, at October 31, 1980, the Company was not in compliance with certain other covenants and undertakings given to lenders.

Each of the above defaults could result in acceleration of the indebtedness to which the particular covenant relates, and if any such acceleration occurred, cross-default provisions in the Company's and its subsidiaries' other debt instruments could result in acceleration of substantially all of the indebtedness of the Company and its subsidiaries having fixed maturities. Additionally, any such acceleration could result in the cancellation of bank lines of credit and the demand for repayment of all related borrowings. The Company is presently negotiating for changes in various of its debt instruments.

Significant indebtedness of consolidated subsidiaries ($824.9 million at October 31, 1980) and the finance companies ($396.2 million at October 31, 1980) is on a demand or short-term note or bill basis (generally less than 90 days) and, in the case of certain consolidated subsidiaries, is in part guaranteed by the Company. Demands or requests for payment of such debt have been made or threatened by certain lenders and discussions are proceeding with respect thereto. Moreover, all payments of maturities on unsecured private debt, other than discounted debt, have been suspended as from October 1980. Interest payments on unsecured private debt, other than discounted debt, of the consolidated companies have been suspended as from December 1, 1980 (other than in Australia, where court imposed schemes of arrangement are now in effect).

As a result of the decision to suspend payments on loans, substantial principal repayments of presently outstanding long-term indebtedness of the Company and its finance subsidiaries are overdue and substantial principal repayments are scheduled (with, in some instances, a right of acceleration in the event of payment defaults on other indebtedness) during the next five fiscal years and thereafter (See Note 8). The Company has commenced, and intends to continue, negotiations with its lenders for restructuring of its debt so as to enable it to meet its debt requirements while providing for the Company's financial needs and so as to enable it to defer principal payments on account of presently outstanding consolidated debt for borrowed money pending consummation of negotiations. (See Note 16(b).)

4. RECEIVABLES

(a) Receivables include amounts due from finance subsidiaries of $92.5 million in 1980 and $57.6 million in 1979. Amounts due to finance subsidiaries of $14.8 million in 1980 and $5.1 million in 1979 are included with Accounts Payable.

(b) Receivables are shown net of the following provisions:

	(Millions of U.S. Dollars) 1980	1979
Allowance for doubtful notes and accounts	**$ 8.2**	$9.2
Discounts, volume and performance bonuses, returns and other allowances	**44.8**	25.1
Unearned interest	**2.9**	2.2
	$55.9	$36.5

5. FIXED ASSETS

(Millions of U.S. Dollars) **1980**

	Cost	Accumulated Depreciation and Amortization	Net
Land	**$ 18.0**		**$ 18.0**
Buildings	**255.8**	**$110.6**	**145.2**
Machinery and equipment	**678.0**	**404.4**	**273.6**
Production tooling	**113.2**	**61.8**	**51.4**
Total	**$1,065.0**	**$576.8**	**$488.2**

(Millions of U.S. Dollars) 1979

	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 23.4		$ 23.4
Buildings	281.7	$110.2	171.5
Machinery and equipment	685.7	385.0	300.7
Production tooling	128.6	55.5	73.1
Total	$1,119.4	$550.7	$568.7

Depreciation, and amortization of production tooling charged to operations are as follows:

	(Millions of U.S. Dollars) 1980	1979
Depreciation	**$ 53.6**	$ 61.4
Amortization	**26.0**	26.2
	$ 79.6	$ 87.6

6. INCOME TAXES

Deferred income taxes are presented on the Consolidated Balance Sheets as follows:

Net current deferred tax debits of $27.3 million in 1980 ($21.1 million in 1979), resulting from current timing differences between taxable and reported income, are grouped with Prepaid Expenses and Other Current Assets.

Non-current deferred income taxes ($14.3 million in 1980 and $13.8 million in 1979), resulting primarily from capital cost allowances claimed for tax purposes in excess of depreciation and amortization recorded in the accounts, are shown separately.

The relationship between tax expense and pre-tax accounting income is affected by a variety of tax rates in the many countries in which the Company operates as well as by investment, loss carry-forward and other tax credits. In addition, the relationship in 1980 has been significantly affected by the fact that the unrealized tax benefits of operating losses have not been recognized. Income tax recoveries were increased by tax credits arising from prior years' losses and other tax adjustments relating to prior years amounting to $3.8 million in 1980 and $4.7 million in 1979.

At October 31, 1980, certain companies had tax losses aggregating $727.9 million, (October 31, 1979—$460.4 million) available to be carried forward for which potential recoveries have not been recognized in the accounts. These loss carry-forwards expire as follows: 1981—$0.6 million; 1982—$14.2 million; 1983—$28.3 million; 1984—$14.8 million; 1985 and beyond—$670.0 million. At current tax rates, the tax recoveries, if realized, would amount to approximately $332.6 million (1979—$202.0 million).

7. DIVIDENDS

No dividends were declared in 1980 or 1979. At October 31, 1980, cumulative dividends on the Series A and B preferred shares are in arrears to the extent of Cdn. $6.88 (U.S. $5.85) per share, representing eleven quarterly dividends. Until all arrears of dividends on all outstanding preferred shares shall have been paid, each holder of preferred shares is entitled to one vote per share for each preferred share held.

The default of debt covenants described in Note 3 precludes the payment of any dividend. In addition, certain of the long-term debt agreements contain limitations on the payment of cash dividends on both the preferred and common shares (and on the purchase or retirement of preferred or common shares other than pursuant to sinking fund or other purchase requirements). Under the most restrictive of these, cash dividends on preferred and common shares (plus amounts expended to purchase or retire preferred or common shares) may not exceed $30.0 million plus 75 per cent of consolidated net income, as defined, earned after November 1, 1977 minus 100 per cent of consolidated net losses, as defined, incurred after that date. Notwithstanding the amendments to debt tests outlined in Note 3, the Company is precluded from declaring any cash dividend on any of its preferred or common shares unless, after giving effect to the proposed dividend, "Consolidated Net Tangible Assets" are equal to at least 200 per cent of "Consolidated Funded Indebtedness" and "Consolidated Current Assets" are equal to at least 145 per cent of "Consolidated Current Liabilities." (See Note 3.)

As a result of the dividend restrictions described above, and the incurrence during the first quarter of 1978 of a net loss in excess of $30.0 million, the Company, subsequent to January 31, 1978, suspended dividends on the cumulative preferred shares and the common shares. As at October 31, 1980, cumulative dividends on Series A and B preferred shares are in arrears to the extent of $5.85 per share, or $22.4 million in total. Dividends on the Company's common shares may not be resumed until all dividends in arrears have been paid on the preferred shares, and preferred share dividends may not be resumed until net income, as defined, accumulated after October 31, 1980 exceeds approximately $450 million.

Of consolidated retained earnings, $189.7 million at October 31, 1980 ($199.0 million at October 31, 1979) represents the Company's equity in profits less losses of various subsidiaries outside North America which have not been remitted to Canada. Transfers of earnings from such companies are generally subject to the approval of exchange control authorities, but permission to pay dividends within reasonable and prudent financial limits is normally obtainable.

8. LONG-TERM DEBT

Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31.

	(Millions of U.S. Dollars) 1980	1979
(a) Bonds, debentures, notes and loans:		
Massey-Ferguson Perkins S.A. (Brazil):		
Bank loans maturing 1981-84 repayable in U.S. dollars bearing interest at ¾%—2½% above Eurodollar interbank rate	**$ 14.3**	$ 30.9
Massey-Ferguson S.A. (France):		
Bank loans maturing 1981-85 bearing interest at 1.95% above base rate	**23.4**	24.4
Massey-Ferguson S.p.A. (Italy):		
Bank loan maturing 1981-82 repayable in U.S. dollars bearing interest at 1.3% above Eurodollar interbank rate	**10.0**	10.0
Massey-Ferguson Holdings Limited (United Kingdom):		
7½% Loan Stock maturing 1986-92	**19.4**	16.6
Bank loans maturing 1981-84 bearing interest at various London bank market rates	**34.5**	38.6
Massey-Ferguson Inc. (U.S.A.):		
8.55% Promissory Notes maturing 1981-84	**21.6**	26.3
5⅞% Subordinated Notes maturing 1981-84	**10.4**	12.0
Massey-Ferguson (Delaware) Inc. (U.S.A.):		
9% Senior Notes maturing 1983-97	**150.0**	150.0
Perkins Diesel Corporation (U.S.A.):		
Capitalized value of property and equipment lease terminating 1993 discounted at 10%	**24.5**	25.5
General Purpose Loans (Repayable in U.S. Dollars):		
9½% Debentures maturing 1991 (*Note 8(d)*)	**61.5**	66.0
9¾% Sinking Fund Debentures maturing 1981-82	**30.0**	32.0
Other Long-Term Debt (*Note 8(e)*)	**75.7**	104.8
	$475.3	$537.1

	1980	1979
(b) Convertible subordinated notes:		
Massey-Ferguson (Delaware) Inc. (U.S.A.):		
10% Convertible Subordinated Notes maturing 1988-92	**$147.0**	$147.0

These notes are convertible into common shares of Massey-Ferguson Limited at an initial price of U.S. $45.00 per share rising to U.S. $55.00 per share in 1982. There is no dilution of 1980 or 1979 annual results per common share as a result of this convertible feature.

(c) Sinking fund requirements and debt maturities during the next five years are as follows: 1981—$60.2 million; 1982—$78.5 million; 1983—$46.3 million; 1984—$54.3 million; 1985—$25.9 million. Maturities of $0.8 million due in October, 1980 were not paid pending finalization of negotiations with lenders to revise the Company's debt structure. (See Note 3.)

(d) The Company is obligated to purchase for cancellation up to $4.5 million of these debentures each year to 1986 if the market price falls below par value during the period March 1 to May 31.

(e) Other long-term debt includes long-term loans each of which is less than $10.0 million.

9. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingent liabilities relating to notes receivable discounted and bills guaranteed, etc., were $85.6 million at October 31, 1980 ($137.5 million at October 31, 1979).

(b) Under subscription agreements relating to short-term bank borrowings and senior and subordinated notes of the North American finance subsidiaries, Massey-Ferguson Limited has agreed that it will ensure that assets are maintained in those companies in certain specified relationships with their indebtedness.

(c) Approved capital expenditure programs outstanding at the year end were $55.0 million including capital commitments of approximately $16.0 million (1979—$65.0 million including capital commitments of $14.0 million).

(d) Pension expense including past service costs was $88.0 million in 1980 and $93.0 million in 1979. In accordance with recommendations received from independent actuaries in 1980, certain assumptions affecting the actuarially computed value of pension benefits accruing to certain employees were revised with the effect of reducing pension expense by approximately $9.9 million ($0.54 per common share) in 1980. According to the latest valuations which were completed as of various dates between June 30, 1978 and January 1, 1980 depending upon the location, the actuarially computed value of past service obligations exceeded the market value of pension fund assets and balance sheet accruals by approximately $85.0 million ($111.1 million in 1979) of which $41.9 million ($49.4 million in 1979) was vested. The decreases in these amounts from 1979 are due primarily to the change in actuarial assumptions, an increase in the market value of the funds' assets and reduced employment levels.

In October 1980, Argus Corporation Limited, a common shareholder of the Company, gifted its three million shares to the Company's two major Canadian pension funds. This gift occurred subsequent to the actuarial valuation upon which the 1980 pension accounting and disclosures are based, and accordingly, the effects, if any, of this gift are not considered in the above disclosures.

(e) As indicated in Note 14, deferred income taxes relating to United Kingdom inventory tax relief previously recorded for fiscal years 1973 through 1978 were reversed during 1979. The July 26, 1979 U.K. Budget made that portion of the aforementioned inventory tax relief related to fiscal years 1973 and 1974 permanent; however, the tax relief related to subsequent years (approximately $81.5 million in total) is subject to recapture should the Company's U.K. inventories fall below base year levels.

Provision therefor will not be made in the accounts so long as it continues to be probable that such recapture will not occur.

(f) The Company, several of its directors and its auditors were named defendants in a class action filed in February, 1979 in a United States District Court. The complaint, which sought damages in an unspecified amount, alleged that 1976 and 1977 reports and releases of the Company contained misrepresentations and omissions in violation of certain provisions of United States securities laws. On December 26, 1979, the Court dismissed the complaint for failing to state sufficient facts to sustain a cause of action. The dismissal was without prejudice to the plaintiff's filing an amended complaint, which was filed on January 25, 1980. The Company has filed various procedural motions, including a motion to dismiss the plaintiff's amended complaint. The decision of the Court on these motions has not yet been rendered.

(g) Refer also to Notes 1(a), 2 and 3 for details on basis of presentation of the consolidated financial statements, financing requirements and debt covenants.

10. BUSINESS SEGMENT INFORMATION

The Company operates in two industry segments: Farm and Industrial Machinery, involving the manufacture and sale of farm and industrial tractors, farm balers, harvesters, other agricultural implements and industrial loaders, and Engines, involving the production and sale of multi-cylinder, multi-purpose diesel engines.

Operations and identifiable assets by industry segment and geographic region are presented below.

(Millions of U.S. Dollars)

Industry Segments	1980 Farm and Industrial Machinery	1980 Engines	1980 Adjustments and Eliminations	1980 Consolidated	1979 Farm and Industrial Machinery	1979 Engines	1979 Adjustments and Eliminations	1979 Consolidated
Sales to unaffiliated customers	$2,533	$ 599		$3,132	$2,469	$ 504		$2,973
Intersegment sales		233	$ (233)			224	$ (224)	
	$2,533	$ 832	$ (233)	$3,132	$2,469	$ 728	$ (224)	$2,973
Profit before items shown below	$ 118	$ 63	$ (43)	$ 138	$ 169	$ 58	$ (27)	$ 200
Interest expense, net				(259)				(164)
Exchange adjustments and foreign currency exchange rate changes in Cost of Goods Sold				(58)				6
General corporate expense, net				(25)				(10)
(Loss) profit before Provision for Reorganization Expense, Income Taxes, Equity in net income of finance subsidiaries and Associate Companies, Loss from Discontinued Construction Machinery Operations and Extraordinary Item				$ (204)				$ 32
Identifiable assets	$2,135	$ 425	$ (109)	$2,451	$1,910	$ 430	$ (58)	$2,282
Discontinued Construction Machinery (CM) Operations				26				175
Investment in finance subsidiaries and Associate Companies				190				202
Corporate assets				161				86
Total assets				$2,828				$2,745
Depreciation and Amortization (excluding CM)	$ 61	$ 17		$ 78	$ 60	$ 22		$ 82
Capital expenditures (excluding CM)	$ 30	$ 16		$ 46	$ 45	$ 31		$ 76

Geographic Regions	1980 Canada	1980 U.S.	1980 Latin America	1980 Europe and Other	1980 Adjustments and Eliminations	1980 Consolidated	1979 Canada	1979 U.S.	1979 Latin America	1979 Europe and Other	1979 Adjustments and Eliminations	1979 Consolidated
Sales to unaffiliated customers	$ 232	$ 832	$ 371	$1,697		$3,132	$ 219	$ 852	$ 386	$1,516		$2,973
Sales among geographic regions	281	125	2	231	$ (639)		274	142	5	227	$ (648)	
	$ 513	$ 957	$ 373	$1,928	$ (639)	$3,132	$ 493	$ 994	$ 391	$1,743	$ (648)	$2,973
(Loss) profit before items shown below	$ 48	$ (8)	$ 36	$ 105	$ (43)	$ 138	$ 50	$ 1	$ 43	$ 133	$ (27)	$ 200
Interest expense, net						(259)						(164)
Exchange adjustments and foreign currency exchange rate changes in Cost of Goods Sold						(58)						6
General corporate expense, net						(25)						(10)
(Loss) profit before Provision for Reorganization Expense, Income Taxes, Equity in net income of finance subsidiaries and Associate Companies, Loss from Discontinued Construction Machinery Operations and Extraordinary Item						$ (204)						$ 32
Identifiable assets	$ 291	$ 865	$ 226	$1,178	$ (109)	$2,451	$ 273	$ 781	$ 241	$1,050	$ (63)	$2,282
Discontinued Construction Machinery Operations						26						175
Investment in finance subsidiaries and Associate Companies						190						202
Corporate assets						161						86
Total assets						$2,828						$2,745

Intersegment and interregional sales are accounted for at prices which the Company believes approximate market.

As stated above, the loss of $204 (1979 profit—$32) is before Provision for Reorganization Expense of $29 (1979—$95). This provision is allocated as follows: by industry segment, $12 (1979—$71) to Farm and Industrial Machinery and $17 (1979—$31) to Engines; by geographic region, $(1) (1979—$1) to Canada, $4 (1979—$27) to U.S., $(1) (1979—$2) to Latin America and $27 (1979—$72) to Europe and Other; in each case, the balance of $nil (1979—$(7)) relates to general corporate expense and Associate Companies.

11. SHARE CAPITAL, STOCK OPTIONS AND RESERVATION OF SHARES

(See also Note 16)

	1980 and 1979		
Share capital consists of:	Shares Authorized	Shares Issued and Outstanding	(Millions of U.S. Dollars) Amount paid in
$2.50 (Cdn.) Cumulative Redeemable Preferred Shares of a par value of $25 (Cdn.) each			
Series A	1,526,300	1,526,300	$ 37.4
Series B	2,298,500	2,298,500	58.4
Common shares without nominal or par value	25,000,000	18,250,350	176.9

Except when preferred share dividends are in arrears, the Company is obligated to purchase in the open market up to 16,700 preferred shares per month if the price falls below $25 (Cdn.) per share, up to a maximum of 200,400 shares in any one year. However, if either Series A or Series B preferred share dividends are in arrears the Company is precluded by the provisions attaching to these shares from making any such purchases until all dividends and dividend arrears on both series are fully paid. The first failure to pay a dividend on its normal due date on either series of preferred shares occurred on March 31, 1978. (See Note 7.)

Commencing five years after issue (Series A issued in 1975, and series B issued in 1976), the preferred shares may be redeemed, at the option of the Company, at a premium of $1.25 (Cdn.), such premium reducing by $0.25 (Cdn.) per share annually for five years and thereafter at par. This redemption privilege is, however, subject to the restrictions on share purchases or share redemptions set out in Note 7.

There are reserved for possible future issue 215,350 common shares for employee stock options and 3,267,000 common shares for conversion of convertible subordinated notes. At October 31, 1980, stock options for 193,500 common shares were outstanding. These options, granted as of May 1, 1980, are exercisable at $9.13 (Cdn.) between March 1, 1981 and March 31, 1981. No stock options were outstanding at October 31, 1979.

12. PROVISION FOR REORGANIZATION EXPENSE

In 1979 and 1978 various programs were initiated to address problems adversely affecting operations and financial position. The estimated net cost of these programs was shown as a separate item on the Consolidated Statement of Income under the caption "Provision for Reorganization Expense" in the case of continuing operations, and as part of "Loss from Discontinued Operations" in the case of the construction machinery business. The principal components are shown below. These programs have been substantially completed.

In 1980, volume reductions caused by the recession in the farm machinery and diesel engine markets, and the continued unfavourable impact of inflation on operating results necessitated further reductions to hourly and salaried personnel. The costs associated with such decisions (less net overprovisions of $4.5 million in respect of prior years' programs) have been charged to Reorganization Expense in 1980.

	(Millions of U.S. Dollars) 1980	1979
Rationalization and realignment of manufacturing and other facilities (consisting principally of relocation expenses, employee termination and redundancy, inventory and fixed asset write-downs, and provision for operating losses and other closure costs, net of gains on disposal of other fixed assets)	**$23.5**	$96.0
Net loss (gain) on investments	**5.0**	(1.0)
Total	**$28.5**	$95.0

13. DISCONTINUED OPERATIONS

The Hanomag construction machinery business was sold effective February 1, 1980 and the Company completed its phase-out of the manufacture and sale of construction machinery world-wide. The phase-out took longer than was originally anticipated, and adjustments to the ultimate selling price which were not determined until the fourth quarter of 1980 have resulted in costs of disposition in excess of those provided in 1979.

Operating results for the construction machinery business and provision for loss on disposition are segregated from results of Continuing Operations and presented in the Consolidated Statement of Income as "Loss from Discontinued Operations." This item is summarized as follows:

	(Millions of U.S. Dollars) 1980	1979
Net Sales	**$ 89.4**	$ 284.1
Costs and Expenses before items shown below	**(98.5)**	(292.1)
Loss on Disposal (including $4.8 million provided in 1979 for estimated 1980 operating losses)	**(16.4)**	(15.0)
Loss from Discontinued Operations	**$ (25.5)**	$ (23.0)

14. EXTRAORDINARY ITEM

In 1979, deferred income taxes relating to United Kingdom inventory tax relief (Stock Appreciation Relief—SAR) previously provided for the fiscal years 1973 through 1978 were reversed and reported as an extraordinary item. SAR for years subsequent to 1974 remains subject to recapture if inventory falls below certain defined levels, but, in management's view, it is probable that this will not occur. Under accounting principles generally accepted in the United States, this item would have been treated as an ordinary recovery of income taxes. (See Note 15(e).)

15. OTHER INFORMATION

(a) Funds from (used in) Operations

	(Millions of U.S. Dollars) 1980	1979
Continuing Operations—		
Loss from operations	**$(199.7)**	$(35.4)
Items not affecting working capital:		
Depreciation and amortization	**78.4**	81.8
Exchange adjustments on long-term debt	**8.1**	(3.8)
Increase (decrease) in deferred income taxes	**0.3**	(19.1)
Minority interest	**0.2**	1.4
Equity in earnings of finance subsidiaries in excess of dividends received	**(22.6)**	(16.5)
Profit on disposal of fixed assets	**(6.7)**	(2.8)
Provision for reorganization expense not involving a current receipt of working capital	**(2.1)**	(12.6)
Equity in earnings of Associate Companies in excess of dividends received		(4.6)
Funds used in continuing operations	**(144.1)**	(11.6)
Discontinued Operations—		
Loss from operations	**(25.5)**	(23.0)
Items not affecting working capital:		
Depreciation and amortization	**1.2**	5.8
Equity in earnings of finance subsidiaries	**(0.2)**	(0.1)
Loss (profit) on disposal of fixed assets	**0.2**	(1.2)
Minority interest		0.1
Funds used in discontinued operations	**(24.3)**	(18.4)
Funds used in Operations	**$(168.4)**	$(30.0)

(b) Quarterly condensed unaudited income statements for 1980 and 1979 are presented below.

	(Millions of U. S. Dollars) 1980 Quarter				1979 Quarter			
	1	2	3	4	1	2	3	4
Net Sales	**$ 711.1**	**$ 844.7**	**$ 731.4**	**$ 844.9**	$ 567.7	$ 743.0	$ 787.7	$ 874.6
Costs and Expenses	**733.1**	**833.1**	**808.0**	**961.9**	546.6	734.0	800.8	859.5
(Loss) Profit before Items Shown Below	**(22.0)**	**11.6**	**(76.6)**	**(117.0)**	21.1	9.0	(13.1)	15.1
Provision for Reorganization Expense				**(28.5)**			(23.7)	(71.3)
Income Tax (Expense) Recovery	**0.8**	**2.3**	**2.2**	**4.8**	(2.7)	(3.0)	6.2	5.8
Equity in net income of:								
Finance subsidiaries	**8.6**	**1.9**	**8.3**	**3.9**	2.3	5.4	7.4	1.5
Associate Companies					1.0	1.5	1.5	0.6
(Loss) Profit from Continuing Operations	**(12.6)**	**15.8**	**(66.1)**	**(136.8)**	21.7	12.9	(21.7)	(48.3)
(Loss) Profit from Discontinued Operations				**(25.5)**	1.8	(2.1)	(3.9)	(18.8)
(Loss) Profit before Extraordinary Item	**(12.6)**	**15.8**	**(66.1)**	**(162.3)**	23.5	10.8	(25.6)	(67.1)
Extraordinary Item							95.4	
Net (Loss) Income	**$ (12.6)**	**$ 15.8**	**$ (66.1)**	**$ (162.3)**	$ 23.5	$ 10.8	$ 69.8	$ (67.1)
(Loss) Income per Common Share (in U.S. dollars after cumulative dividends on preferred shares)								
(Loss) Profit from continuing operations	**$(0.80)**	**$0.76**	**$(3.75)**	**$(7.60)**	$1.07	$0.58	$(1.30)	$(2.73)
(Loss) Profit before extraordinary item	**$(0.80)**	**$0.76**	**$(3.75)**	**$(9.00)**	$1.17	$0.47	$(1.51)	$(3.78)
Net (Loss) Income	**$(0.80)**	**$0.76**	**$(3.75)**	**$(9.00)**	$1.17	$0.47	$ 3.72	$(3.78)

If existing long-term convertible notes had been converted to common shares, net income per common share would be $3.32 for the third quarter of 1979. There is no dilution in respect of any other quarters in 1980 or 1979, or for 1980 or 1979 as a whole.

Common share prices on the Toronto Stock Exchange by quarter for 1980 and 1979 are as follows (in Cdn. dollars):

High	**$13**	**$13⅝**	**$10⅜**	**$10¼**	$12¼	$14¾	$15½	$15⅛
Low	**$ 9⅞**	**$ 8⅞**	**$ 7**	**$ 5¾**	$ 9½	$10¾	$12¾	$10⅛

(c) SEC Accounting Series Release 190 requires that larger industrial companies disclose selected replacement cost information in their annual 10-K statement filed with the Commission. The Company's 10-K Report contains specific information with respect to replacement cost of inventories and productive capacity (generally buildings, machinery and equipment) and a discussion of the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the year. Although the Company is concerned about the effect of world-wide inflation on its statements, it believes the information required by the SEC is of limited, if any, value because of the subjective judgments required in its preparation. This material is unaudited.

(d) In accordance with generally accepted accounting principles, the Company's Series A and B Preferred Shares are included as part of "Shareholders' Equity" in the Consolidated Balance Sheets. SEC Accounting Series Release 268 requires a different disclosure of certain redeemable preferred shares for financial information included in SEC filings in that a general heading "Shareholders' Equity" may not be used and such redeemable preferred shares may not be included in a combined total for equity securities. In addition, the terms and dates of redemption of such shares must be presented in a separate note entitled "Redeemable Preferred Shares." Because of the purchase obligation described in Note 11, the Series A and B Preferred Shares are considered by the SEC to be redeemable preferred shares under ASR 268 and accordingly financial information included in SEC submissions is prepared in accordance with the above-noted requirements.

(e) In 1979, the Company changed to the wholesale method of accounting for sales to North American dealers and the 1978 consolidated financial statements were restated to the new basis. The change in method of accounting for sales and the extraordinary item referred to in Note 14 would have received different treatment had accounting principles generally accepted in the United States been followed. The cumulative effect of the change on income for years prior to 1979 would have been reflected as a separate adjustment in the 1979 income statement rather than as an adjustment to the 1979 opening balance of retained earnings, and the extraordinary item would have been treated as an ordinary recovery of income taxes. This U.S. treatment would be presented as follows in 1979:

	(Millions of U.S. Dollars)
Profit from Continuing Operations	$60.0
Loss from Discontinued Operations	(23.0)
Profit before cumulative effect of change in accounting principle ($1.58 per share)	37.0
Cumulative effect of change in accounting for sales on years prior to 1979 ($0.04 per share)	0.8
Net income for the year ($1.62 per share)	$37.8

16. EVENT SUBSEQUENT TO OCTOBER 31, 1980

(a) At a special general meeting of shareholders held on November 13, 1980, and continued on November 29, 1980, the common and preferred shareholders approved a special resolution authorizing continuance of the Company under the Canada Business Corporations Act, and amendment of the Company's charter by, among other things, removing the existing limits on the authorized number of common and preferred shares, creating a separate class of junior preferred shares without limit as to number, and amending several terms of the Company's outstanding Series A and B preferred shares. Also approved was a new By-law No. 1, which will replace the existing general by-law of the Company.

(b) (Unaudited) Substantial developments with respect to the Company's refinancing plan which should be considered in conjunction with comments made in Notes 2 and 3 have taken place subsequent to October 31, 1980. These developments and various other aspects of the refinancing plan are described in the statement "Status of Refinancing" which appears on pages 20-21 of this Report.

FINANCE SUBSIDIARIES

(Millions of U.S. Dollars)

COMBINED STATEMENTS OF INCOME AND RETAINED EARNINGS
Years ended October 31, 1980 and 1979

	1980	1979
Revenue:		
Interest and finance fees (including income from affiliates of $85.9 in 1980 and $66.3 in 1979)	**$ 159.1**	$ 123.9
Discounts	**4.9**	5.8
	164.0	129.7
Expenses:		
Administrative expenses	**13.7**	13.7
Interest on long-term debt	**32.1**	30.9
Interest on short-term debt (including $1.2 paid to affiliates in 1980 and $0.7 in 1979)	**84.5**	57.7
Provision for doubtful accounts (recovery)	**2.2**	(0.3)
Exchange adjustments	**(3.8)**	1.3
	128.7	103.3
Income before Income Taxes	**35.3**	26.4
Income taxes:		
Current	**9.6**	10.2
Deferred	**2.8**	(0.5)
	12.4	9.7
Net Income for the Year (including $0.2 attributable to Discontinued Operations in 1980 and $0.1 in 1979)	**22.9**	16.7
Retained Earnings at Beginning of Year	**87.5**	70.9
	110.4	87.6
Deduct dividends on preferred shares	**0.1**	0.1
Retained Earnings at End of Year	**$ 110.3**	$ 87.5

COMBINED STATEMENTS OF ASSETS AND LIABILITIES
October 31, 1980 and 1979

	1980	1979
Assets:		
Cash	**$ 35.6**	$ 20.0
Receivables (*Note 2*)	**1,075.3**	1,003.9
Due from affiliates	**14.8**	5.1
Prepaid expenses	**4.9**	5.0
	$1,130.6	$1,034.0
Liabilities:		
Short-term notes payable—Banks	**$ 561.6**	$ 503.7
—Others	**3.6**	6.2
Due to affiliates	**92.5**	57.6
Long-term advances from affiliates	**2.5**	2.1
Dealer deposits	**14.0**	12.6
Accrued charges	**17.4**	15.6
Income taxes payable	**1.3**	1.1
Deferred income taxes	**9.4**	6.6
Long-term debt (*Note 3*)	**259.7**	282.7
	962.0	888.2
Equity of Massey-Ferguson Limited:		
Share capital	**58.3**	58.3
Retained earnings (*Note 3(c)*)	**110.3**	87.5
	168.6	145.8
	$1,130.6	$1,034.0

COMBINED STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years ended October 31, 1980 and 1979

	1980	1979
Source of Funds:		
Net Income	**$ 22.9**	$ 16.7
Collection on liquidation of receivables	**1,999.0**	2,044.5
Increase (decrease) in short term notes payable	**55.3**	(36.3)
Increase in due to affiliates	**34.9**	35.1
Increase in unearned interest and discount, and allowance for doubtful accounts	**24.3**	4.4
Increase in accrued charges	**1.8**	1.6
Increase (decrease) in dealer deposits	**1.4**	(1.6)
Increase (decrease) in long-term advances from affiliates	**0.4**	(6.0)
Proceeds from common share issues		5.0
Increase (decrease) in other accounts (net)	**3.0**	(3.7)
Total funds provided	**$2,143.0**	$2,059.7
Use of Funds:		
Cost of receivables acquired	**$2,104.4**	$2,047.2
Reduction in long-term debt	**23.0**	23.3
Increase (decrease) in cash	**15.6**	(10.8)
Total funds used	**$2,143.0**	$2,059.7

(See accompanying Notes to Combined Finance Subsidiaries' Statements)

NOTES TO COMBINED FINANCE SUBSIDIARIES' STATEMENTS

Years ended October 31, 1980 and 1979 *(in U.S. Dollars)*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined finance subsidiaries' financial statements have been prepared by management following accounting policies that are generally accepted in Canada. They are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of Presentation

The accompanying combined financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Companies be unable to continue as a going concern and therefore be required to realize their assets and liquidate their liabilities in other than the normal course of business and at amounts different from those in the accompanying combined financial statements. See Notes 2 and 3 to Consolidated Financial Statements.

The accompanying financial statements combine the accounts of Massey-Ferguson Finance Company of Canada Limited and its subsidiaries Massey-Ferguson Finance (Alberta) Limited and Massey-Ferguson Finance (Québec) Limitée; Massey-Ferguson Credit Corporation (U.S.A.) and its finance subsidiary; Massey-Ferguson-Perkins Finance Company Limited (U.K.); Perkins Engines Finance Company Limited (U.K.); Massey-Ferguson Finance AG (Switzerland); MF Finanziaria S.p.A. (Italy); Massey-Ferguson Finance (Australia) Limited and MF Factoring GmbH (Germany).

(b) Exchange Translation

The statements of companies whose accounts are maintained in other currencies have been translated into U.S. dollars substantially as follows: assets and liabilities at exchange rates prevailing at the end of the year; share capital at rates prevailing at the date of issue; revenue and expenses at average exchange rates during the year. Translation gains or losses are included in income.

(c) Finance Income

Interest and discounts are generally taken into income in declining amounts over the life of the contract on the basis of effective yield.

(d) Income Taxes

The companies follow the deferred method of tax allocation in accounting for income taxes.

(e) Classification of Assets and Liabilities

In accordance with industry practice, the assets and liabilities have not been classified as current or non-current. In addition, certain 1979 balances have been reclassified to conform with 1980 presentation.

2. RECEIVABLES

Receivables are shown net of the following provisions:

(Millions of U.S. Dollars)	**1980**	1979
Allowance for doubtful accounts	**$ 8.9**	$ 6.3
Unearned interest and discount	**149.3**	127.6
	$158.2	$133.9

At October 31, 1980 approximately 41 per cent (38 per cent at October 31, 1979) of the receivables, before provisions, mature beyond one year, as follows:

	1980	1979
13—24 months	**$234.3**	$203.4
25—36 months	**162.9**	133.1
37—48 months	**73.6**	68.9
over 48 months	**29.7**	28.8
	$500.5	$434.2

Receivables of the Canadian and U.S. finance subsidiaries include interest bearing wholesale receivables from North American dealers of $1.6 million in 1980 and $1.1 million in 1979.

3. LONG-TERM DEBT

(a) Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31.

(Millions of U.S. Dollars)	**1980**	1979
Massey-Ferguson Finance Company of Canada Limited:		
9¾% Senior Debentures maturing 1980		$ 3.0
Senior Notes maturing 1982-84 bearing interest at 1¼% above prime rate	**$ 21.3**	21.1
Senior Note maturing 1981-82 repayable in U.S. dollars bearing interest at 1⅛% above Eurodollar interbank rate	**9.0**	10.0
8½% Subordinated Notes maturing 1981-84	**2.0**	2.5
11⅛% Subordinated Notes maturing 1981-91	**5.0**	5.5
Subordinated Note maturing 1981-82 repayable in U.S. dollars bearing interest at 1⅝% above Eurodollar interbank rate	**4.5**	5.0
MF Finanziaria S.p.A (Italy):		
14.37% Senior Note maturing 1980-82 (Note 3(b))	**5.6**	6.0
Massey-Ferguson Credit Corporation (U.S.A.):		
5¼% Senior Notes maturing 1981-86	**15.0**	17.5
7⅝% Senior Notes maturing 1981-88	**10.9**	12.2
8¾% Senior Notes maturing 1983-87	**35.0**	35.0
9¾% Senior Notes maturing 1981-91	**29.6**	32.3
Senior Notes maturing 1980 bearing interest at 1⅝% above Eurodollar interbank rate (Note 3(b))	**6.3**	6.3
Senior Notes maturing 1981-83 bearing interest at 1⅛% above Eurodollar interbank rate	**22.5**	30.0
Senior Notes maturing 1981-83 bearing interest at 1⅛% above Eurodollar interbank rate	**30.0**	30.0
8% Senior Debentures maturing 1981-93	**17.6**	18.8
5½% Subordinated Notes maturing 1980		0.7
7⅞% Subordinated Notes maturing 1981-88	**2.7**	3.0
9¼% Subordinated Notes maturing 1982-92	**10.0**	10.0
10% Subordinated Notes maturing 1981-91	**12.7**	13.8
Subordinated Notes maturing 1981-83 bearing interest at 1⅛% above the Eurodollar interbank rate	**20.0**	20.0
	$ 259.7	$ 282.7
Senior	**$ 202.8**	$ 222.1
Subordinated	**56.9**	60.6
	$ 259.7	$ 282.7

(b) Instalments due and maturities during the next five years are as follows: 1981—$43.7 million; 1982—$54.1 million; 1983—$51.9 million; 1984—$26.5 million; 1985—$17.5 million. Maturities of $1.1 million on senior notes issued by MF Finanziaria S.p.A and $6.3 million on senior notes issued by MF Credit Corporation due in October, 1980 were not paid pending finalization of the negotiations with lenders to revise the Companies' debt structure. See Note 3 to Consolidated Financial Statements.

(c) In connection with the agreements relating to the long-term debt, $37.0 million of the finance subsidiaries' retained earnings are restricted as to dividends.

4. BUSINESS SEGMENT INFORMATION

The finance subsidiaries comprise a single industry segment. Operations and identifiable assets by geographic region follow:

(Millions of U.S. Dollars)	**1980**				1979			
	Canada	U.S.	Europe and Other	Combined	Canada	U.S.	Europe and Other	Combined
Revenue	**$ 17.3**	**$ 75.7**	**$ 71.0**	**$ 164.0**	$ 15.9	$ 65.5	$ 48.3	$ 129.7
Net Income	**$ 1.7**	**$ 11.8**	**$ 9.4**	**$ 22.9**	$ 1.3	$ 10.3	$ 5.1	$ 16.7
Identifiable Assets	**$118.1**	**$528.9**	**$483.6**	**$1,130.6**	$107.0	$458.4	$468.6	$1,034.0

MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS

To Our Shareholders:

The management of Massey-Ferguson Limited is responsible for the preparation of the Company's financial statements and for their objectivity and integrity. This responsibility includes the selection of appropriate accounting principles in addition to judgments and estimates made in accordance with generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities in the preparation of financial statements. This responsibility is exercised through the Audit Committee, composed of three outside directors, who select the independent chartered accountants, subject to shareholder approval. The independent accountants, Clarkson Gordon, meet regularly with management and the Audit Committee to discuss the results of their audit work, the adequacy of internal controls and other financial reporting matters.

Victor A. Rice
President and
Chief Executive Officer

Vincent D. Laurenzo
Senior Vice President
Planning and Administration

December 12, 1980

AUDITORS' REPORT

To the Shareholders of Massey-Ferguson Limited:

We have examined the consolidated balance sheets of Massey-Ferguson Limited as at October 31, 1980 and 1979, and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. We have also examined the combined statements of assets and liabilities of the Finance Subsidiaries of Massey-Ferguson Limited as at October 31, 1980 and 1979, and the combined statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the financial statements present fairly (a) the consolidated financial position of Massey-Ferguson Limited as at October 31, 1980 and 1979 and the results of its consolidated operations and the changes in its consolidated financial position for the years then ended, and (b) the combined assets and liabilities of the Finance Subsidiaries as at October 31, 1980 and 1979 and the results of their combined operations and the changes in their combined financial position for the years then ended, all in accordance with accounting principles generally accepted in Canada applied on a consistent basis during the period.

Toronto, Ontario, Canada,
December 12, 1980

Clarkson Gordon
Chartered Accountants.

Comment on Canada-United States Reporting Standards

The above opinions are expressed in accordance with standards of reporting recently established and generally accepted in Canada. Had the report been prepared in accordance with United States reporting standards, our opinions on the 1980 financial statements would have been qualified with respect to the outcome of the uncertainties, as described in Notes 1(a), 2 and 3 to the consolidated financial statements, relating to the Company's ability to continue as a going concern.

Toronto, Ontario, Canada,
December 12, 1980

Clarkson Gordon
Chartered Accountants.

SUPPLEMENTARY INFORMATION

Showing Financial Position and Results of Operations had the Finance Subsidiaries been consolidated.
(See Notes 1(a) and (b) to Consolidated Financial Statements)

(Millions of U.S. Dollars)

		1980	1979
SUMMARIZED STATEMENTS OF INCOME Years ended October 31, 1980 and 1979	**Income:**		
	Net Sales	**$3,132.1**	$2,973.0
	Revenue of finance subsidiaries (excluding intercompany)	**77.2**	62.8
		3,209.3	3,035.8
	Costs and Expenses:		
	Cost of goods sold, marketing, general, administrative, engineering and product development expenses	**3,025.0**	2,796.5
	Interest on long-term debt	**103.1**	106.6
	Other interest expense	**259.3**	147.1
	Interest income	**(42.0)**	(40.3)
	Exchange adjustments	**46.1**	(23.6)
	Minority interest	**0.2**	1.4
	Miscellaneous income	**(13.5)**	(10.3)
		3,378.2	2,977.4
	(Loss) profit before Items Shown Below	**(168.9)**	58.4
	Provision for Reorganization Expense	**(28.5)**	(95.0)
	Income taxes	**(2.3)**	(3.4)
	Equity in net income of Associate Companies		4.6
	Loss from Continuing Operations	**(199.7)**	(35.4)
	Loss from Discontinued Operations	**(25.5)**	(23.0)
	Loss before Extraordinary Item	**(225.2)**	(58.4)
	Extraordinary Item		95.4
	Net (Loss) Income for the Year	**$ (225.2)**	$ 37.0

		1980	1979
SUMMARIZED BALANCE SHEETS October 31, 1980 and 1979	**Assets**		
	Current assets:		
	Cash	**$ 91.8**	$ 37.2
	Receivables	**1,550.3**	1,329.3
	Inventories	**988.9**	1,097.6
	Prepaids	**82.2**	82.1
	Total Current Assets	**2,713.2**	2,546.2
	Retail receivables due beyond one year	**406.9**	352.6
	Investments	**34.7**	69.2
	Fixed assets (net)	**488.2**	568.7
	Other assets and deferred charges	**27.3**	24.0
	Total Assets	**$3,670.3**	$3,560.7
	Liabilities and Shareholders' Equity		
	Current liabilities:		
	Bank borrowings and short-term notes payable	**$1,580.3**	$1,021.6
	Current portion of long-term debt	**103.9**	89.5
	Accounts payable and accrued charges	**796.3**	916.3
	Income, sales and other taxes payable	**13.9**	19.7
	Advance payments from customers and dealer deposits	**25.9**	25.1
	Total Current Liabilities	**2,520.3**	2,072.2
	Deferred income taxes	**14.3**	13.8
	Long-term debt	**778.1**	877.3
	Minority interest	**4.5**	19.1
	Total Liabilities	**3,317.2**	2,982.4
	Shareholders' Equity:		
	Share capital		
	Preferred shares	**95.8**	95.8
	Common shares	**176.9**	176.9
	Retained earnings	**80.4**	305.6
		353.1	578.3
	Total Liabilities and Shareholders' Equity	**$3,670.3**	$3,560.7

FINANCIAL REVIEW

Unit sales declined...high value of sterling reduced margins...interest costs surpassed $300 million...plant rationalization program continued through 1980...Company's efficiency has increased significantly.

As indicated in last year's Report, we established a concept of operating income as a measure of management's performance. We defined operating income as total revenue less those recurring expenses which are within the control of management. It excludes extraordinary items, net exchange adjustments and reorganization expense pertaining to continuing operations. The table above displays this concept.

(Millions of U.S. Dollars)	1980 1Q	1980 2Q	1980 3Q	1980 4Q	1980 Full Year	1979	1978
Operating income (loss)							
Continuing	**$19**	**$16**	**$(60)**	**$ (89)**	**$(114)**	$ 54	$ (38)
Discontinued	–	–	–	**(25)**	**(25)**	(23)	(95)
Provision for reorganization expense	–	–	–	**(29)**	**(29)**	(95)	(72)
Extraordinary item	–	–	–	–	–	95	–
Net exchange (loss) gain	**(31)**	–	**(6)**	**(20)**	**(57)**	6	(57)
Net income (loss)	**$(12)**	**$16**	**$(66)**	**$(163)**	**$(225)**	$ 37	$(262)

The operating income figures show clearly that the restructuring had achieved a turnaround in 1979 which continued until mid 1980 but deteriorated rapidly thereafter. In the spring of 1980, the North American farm machinery market began to weaken seriously and shortly thereafter the European market softened. What had been a healthy increase in sales in early 1980 suddenly reversed and became a serious decline versus the previous year. Throughout 1980 the Company monitored retail sales and adjusted production accordingly. The precipitous drop required drastic action including major plant closures in North America in the later portion of the year.

The continued strength of the U.K. pound had an added adverse impact on the Company's operating results since a large portion of Massey-Ferguson's sales to export markets are sourced from the U.K. In addition, by late summer press reports on the Company's financial condition contributed to a weakening of our market position in some areas.

EQUITY FINANCING AND DEBT RESTRUCTURING

The successful completion of the current equity financing and debt restructuring efforts was the single most important issue facing the Company in 1980.

Management had realized for some time that the Company had over-extended itself and had an unacceptably high ratio of debt to equity. Once new controlling interests and management came into place in 1978, the correction of this situation was given the highest priority.

The details of our refinancing plan which was agreed to in principle in February 1981 and the current status of the plan are discussed extensively in the section "Status of Refinancing" on pages 20-21 of this Report.

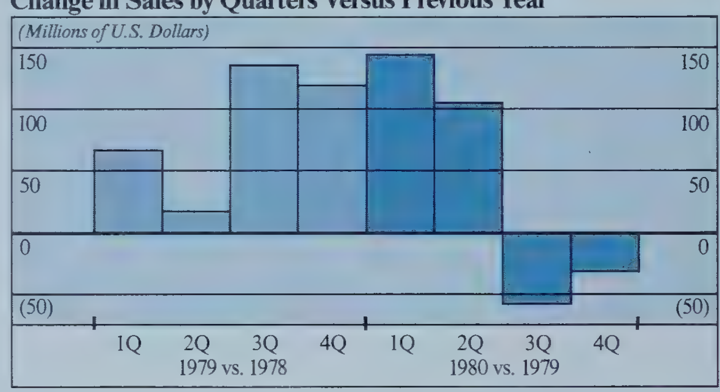
NET SALES

(1980, $3,132.1 million; 1979, $2,973.0 million)

After considering the impact of inflation, which averaged well over ten per cent on a world-wide basis during 1980, the increase of $159.1 million or 5.4 per cent above 1979 sales reflects a decline in real terms for the full year. Our wholesale world-wide unit sales of tractors were down by approximately six per cent and combines by 12 per cent as a result of shrinking markets and dealer inventory adjustments. Our penetration improved slightly in most markets although adverse publicity caused a slippage in some markets notably in the fourth quarter.

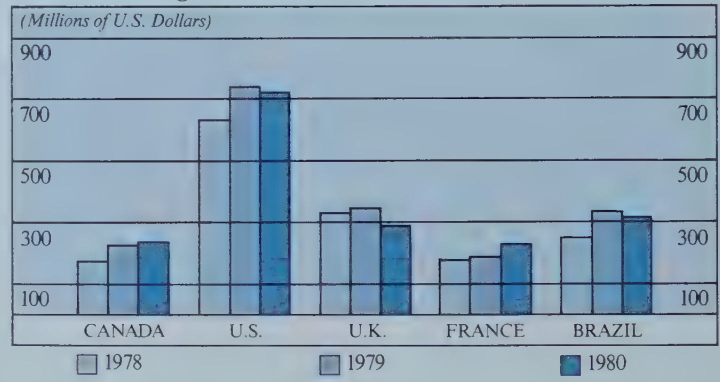
The sales by quarter better reflect the decline in the farm machinery market through the year. The following chart contrasts the sales by quarter for 1979 and 1980 versus the previous years:

Change in Sales by Quarters Versus Previous Year



Full-year sales were strong in France (up 13.7 per cent), Italy (up 36.0 per cent), Scandinavia (up 34.4 per cent) and Mexico (up 40.0 per cent); maintained approximately the same dollar levels in Canada, Argentina, and South Africa; and declined in the U.S. (down 2.4 per cent), U.K. (down 12.5 per cent), West Germany (down 12.1 per cent) and Brazil (down 3.7 per cent due primarily to exchange rate deterioration; unit sales actually increased over 1979). The table below reflects Massey-Ferguson's sales for the last three years in five of the Company's leading markets.

Sales in Leading Markets, 1978-80



Throughout this discussion, comments relate to continuing operations only; the Discontinued Construction Machinery line is discussed separately.

NET EXCHANGE

(1980, $57.6 million loss; 1979, $6.3 million gain)

As stated previously, we believe Statement Number Eight of the Financial Accounting Standards Board (FASB 8) in the U.S. does not properly cope with the need to report the impact of floating exchange rates on the operations of multinational companies. Both the Financial Accounting Standards Board and the Canadian Institute of Chartered Accountants are reviewing their positions on this subject and final resolutions are expected later in 1981.

Meanwhile the Company continues to follow the provisions of FASB 8. This requires that inventory, when sold, be translated in cost of goods sold at historical exchange rates, which, in our view, results in a distortion of the cost of goods sold since the related sales revenue is translated at average exchange rates. We show this exchange rate difference as a separate item in cost of goods sold and as well have highlighted the net exchange impact on continuing operations to assist investors in making a meaningful analysis.

(Millions of U.S. dollars)	**1980**	1979
Effect of foreign currency exchange rate changes on cost of sales	**$ (7.7)**	$(18.6)
Exchange adjustments (loss) gain	**(49.9)**	24.9
Net exchange (loss) gain	**$(57.6)**	$ 6.3

Excluding discontinued operations, exchange factors show an adverse swing of $63.9 million. Of the exchange loss in 1980, the major portion is the impact of rate fluctuations on the accounts exposed to exchange risk in each country. The largest portion of the transaction loss results from intercompany payables for inventory purchased from the U.K. as the pound trended upward through 1980. Included in the results from discontinued operations is a $1.5 million exchange gain for the year.

COST OF GOODS SOLD

(1980, $2,568.5 million; 1979, $2,381.8 million)

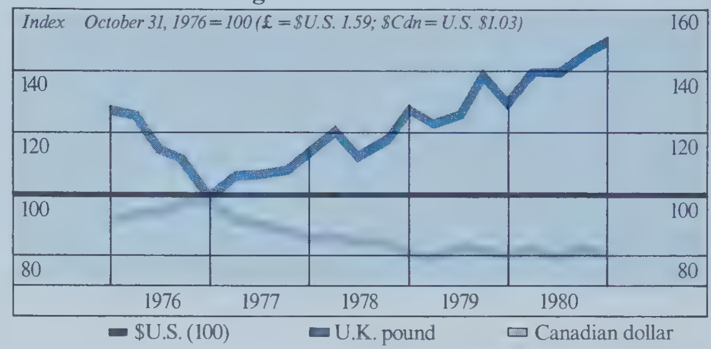
The Company believes management's performance can best be judged when costs are calculated at the year's average foreign exchange rates. On this traditional basis, 1980 cost of goods sold increased to 82.0 per cent of sales compared with 1979 cost of 80.1 per cent and 1978's 81.1 per cent. The unfavourable impacts of inflation and U.K. exchange in 1980 were partially offset by pricing actions, manpower reductions and other cost reduction actions.

During 1980 cost of sales increased by 7.8 per cent from 1979, while sales revenue increased only 5.4 per cent. Gross margins deteriorated markedly in Argentina, West Germany, Italy and the U.K. In 1979, it was indicated that many of the actions taken throughout 1978 and 1979 would show benefits in the 1980 results. This was the case; however, lower production levels resulted in under-utilized fixed overheads which more than offset the cost benefits achieved. Had the earlier actions not been taken, it is questionable whether the Company would have survived.

Price controls in some markets, and greater competitive pressures in many, prevented the recovery of all our cost increases. In some countries, governments impose price restraints but are generally slow to grant price increases; therefore margins are squeezed.

The high value of sterling caused significant difficulties since a large portion of our export production is sourced in the U.K., and in many markets we must compete against equipment produced in the United States and various European countries with relatively weaker currencies at least through 1980. This has been an increasing problem in recent years. The chart below shows the value of the British pound vs. the U.S. dollar on an index basis since 1976 (October 1976 = 100). The Canadian dollar is also shown.

Fluctuation in Exchange Rates Relative to U.S. Dollar



Fiscal years ending October 31

EXPENSES

(1980, $464.4 million; 1979, $410.1 million)

Marketing, general and administrative expenses totalling $404.7 million were 12.9 per cent of sales, compared with $351.9 or 11.8 per cent in 1979. They increased by 15.0 per cent compared with a 5.4 per cent increase in sales. In large part this reflects inflation plus very competitive sales promotion programs to maintain our share of declining markets. Advertising costs increased by $4.5 million chiefly in North America, where we also experienced a $12.5 million increase in waived interest (a program whereby the manufacturing company encourages sales by forgiving interest on the retail purchaser's note but reimburses the finance company for this shortfall). Provisions for doubtful accounts were strengthened in view of the economic environment.

Engineering and product development expenses increased from 1979 by $1.5 million to $59.7 million. This represents 1.9 per cent of sales or slightly lower than our traditional level. Product planning and engineering efforts have been concentrated in the most critical areas of activity to reinforce the successful development of the most competitive product line the Company has had.

INTEREST

(1980, $300.9 million; 1979, $204.5 million)

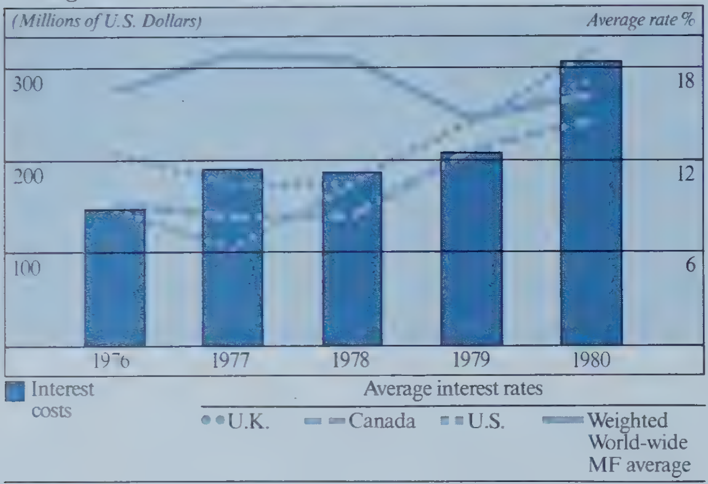
Interest rates hit new highs in the spring of 1980, then tapered off only to rise again toward the end of the year. Total interest costs were $300.9 million, compared with $204.5 million in 1979, an increase of 47 per cent. The Company raised no new long-term funds during the year and had to rely on the relatively higher cost short-term market as long-term debt matured. The result was that interest on long-term debt declined by $4.7 million from 1979 while short-term costs increased by $101.1 million. About 75 per cent of the increase can be attributed to higher borrowings and about 25 per cent to higher rates.

Short-term debt (including current portion of long-term debt) at October 31, 1980, was $1,075.3 million or $504.3 million more than at October 31, 1979. Long-term debt at $562.1 million was $62.7 million less than a year earlier. These

figures relate solely to the manufacturing companies. Figures for the finance companies are shown separately.

The increasing effect of interest costs on Massey-Ferguson's results can be seen in the chart below. This shows the Company's total interest costs for the years 1976-80, interest rates over that period in the countries where the Company's major lenders are located, and the world-wide weighted average short-term interest rate the Company paid in each of those five years.

Total Massey-Ferguson Interest Costs; Average Short-Term Interest Rates in Selected Countries



SUNDRY INCOME
(1980, $55.5 million; 1979, $50.6 million)

This includes interest income and miscellaneous income. The interest income represents interest earned on past-due dealer accounts. This income increased by $1.7 million from 1979. Miscellaneous income is primarily profit on fixed assets disposals but also includes dividends from Associate companies and licensing fees. It increased by $3.2 million in 1980 from 1979.

PROVISION FOR REORGANIZATION EXPENSE
(1980, $28.5 million; 1979, $95.0 million)

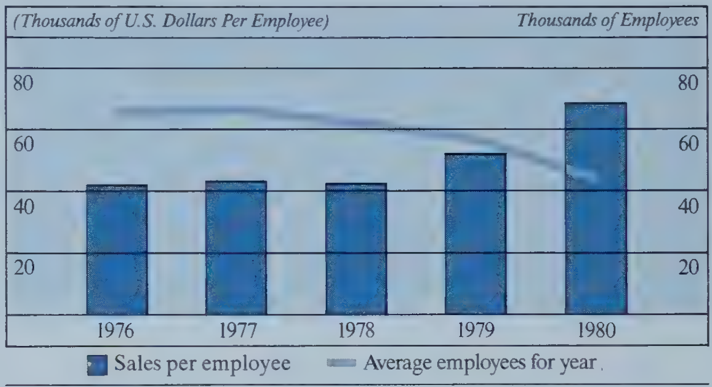
It was pointed out in our 1979 Report that, when reorganizing on a world-wide scale, it is difficult to predict all the costs accurately. The provisions in 1978 and 1979 covered many programs substantially all of which have been completed. Management believes there remains an adequate provision included in accrued charges for those programs yet to be completed.

In addition to the $95.0 million provided in 1979 and $72.6 million in 1978 (plus $43.4 million which forms part of the discontinued operations cost), it became necessary in 1980 to deal with over-capacity and production inefficiencies resulting from lower demand levels. This has been accomplished by rationalizing the activities of certain plants primarily in the U.K. Employees have understood that, if we are to remain a viable company, we have to become more competitive. As a result, with their co-operation, a redundancy program was undertaken. The 1980 provision provides for termination payments to approximately 1,600 employees. Significant changes in work methods to increase productivity are being implemented in 1981.

The divestment and rationalization programs will serve as part of our long-term plan to concentrate resources both geographically and in our core businesses of farm and industrial machinery and engines. Included in the actions to date are sales of the Hanomag construction machinery operation, Badger Northland Inc. in Wisconsin, Sunar in Ontario, Massey-Ferguson de Mexico, S.A., Massey-Ferguson Eire; sales of our minority interests in Motor Iberica, S.A. in Spain and Cinpal in Brazil; a reduction by half in our investment in Massey-Ferguson (South Africa) Limited; the closing of plants in Kilmarnock and Knowsley in the U.K., Canton and Akron in Ohio, Farmington, Michigan, Sorocaba, Brazil, and San Lorenzo, Argentina. These plants have either been sold or are on the market. With these reductions and further minor divestments, the Company is confident that it will be an even stronger competitor in those core operations where it has chosen to concentrate its efforts.

Over the past several years our divestment and manpower reduction programs have significantly improved the Company's efficiency. Total sales for the year divided by the number of employees during the same period is a leading measure of operational efficiency. The following chart shows Massey-Ferguson's sales per employee over the past five years.

Sales Per Employee; Average Number of Employees



INCOME TAXES

Taxes are being paid in some locations in spite of large loss carry-forwards available to reduce taxable income when earned in the future in other locations.

Although significant tax losses have been incurred in 1980 and prior years, the related tax benefits are not recorded until the unit in the appropriate country returns to a profitable position. The $10.1 million recovery in 1980 relates primarily to the U.S. manufacturing company, which files its return on a consolidated basis with the U.S. finance subsidiary which has taxable income. Unfortunately the Canadian Government does not allow similar consolidation, so there is no offset available for the taxes payable by the Canadian finance company.

At October 31, 1980 certain subsidiaries had tax losses aggregating $727.9 million available to be carried forward against taxable income. These sums expire over varying periods. Only $0.6 million expire in 1981 and $670.0 million expire in 1985 or later. If realized in full, the related tax reduction against future income would total $332.6 million. To the extent this reduction is realized, it would contribute to the further early build-up of the Company's equity.

DISCONTINUED OPERATIONS
(1980, $25.5 million loss; 1979, $23.0 million loss)

In November 1979 an agreement was reached to sell the construction machinery operation effective February 1, 1980. The final selling price was dependent upon an audit as of January 31, 1980. This was completed in late 1980 and, as explained in Note 13 to the consolidated financial statements, additional costs which were recorded in the fourth quarter

have been included in the $25.5 million 1980 loss.

Following established accounting principles, construction machinery sales and operating expenses have been excluded from the regular lines of the income statement and only the resultant net loss shown.

WORKING CAPITAL

(1980, $212.7 million; 1979, $426.2 million)

(Millions of U.S. dollars)	**1980**	1979
Working capital consists of:		
Current assets	**$2,106.3**	$1,935.7
Current liabilities	**1,893.6**	1,509.5
Working capital	**$ 212.7**	$ 426.2
Ratio	**1.1:1**	1.3:1

Existing debt tests require that this ratio should be maintained at 1.2:1 at October 31, 1980, increasing to 1.3:1 until October 31, 1981 and 1.45:1 thereafter. However, these requirements have been temporarily suspended and are being renegotiated as part of our refinancing program.

Cash of $56.2 million at October 31, 1980 is unusually high (1979, $17.2 million) as a result of restrictions imposed by our bankers on the settlement of intercompany accounts. Receivables at $968.2 million are $237.1 million higher than at October 31, 1979, largely because of increased dealer stocks in North America.

Inventories of $988.9 million are $108.7 million below the 1979 year end and reflect the tight controls and plant shutdowns in 1980. Bank borrowing increased to $1,015.1 million at October 31, 1980 from $511.7 million a year earlier. This stems from Massey-Ferguson's inability to obtain long-term financing during the Company's difficulties in 1980, and to finance losses suffered during the year.

Plant shutdowns reduced purchases in the last quarter, and, as a result, accounts payable were reduced by $54.3 million to $391.1 million. Accrued charges, consisting chiefly of provisions for employee benefits, warranty and reorganization costs, declined by $59.3 million to $402.7 million.

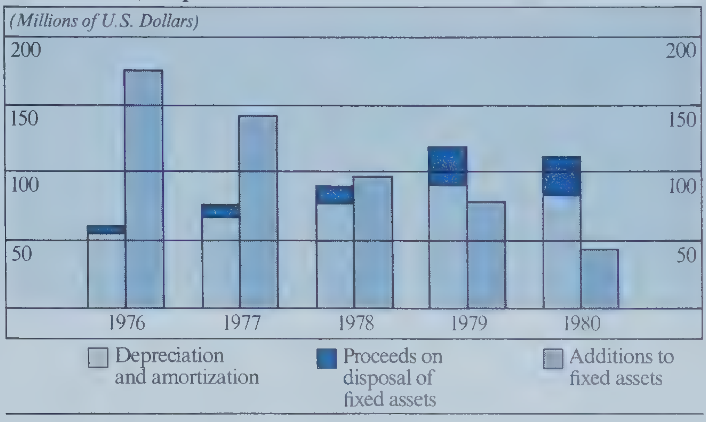
CAPITAL EXPENDITURES

(1980, $46.2 million; 1979, $76.6 million)

Capital expenditures in 1980 totalled $46.2 million. Approximately one-half was spent to maintain the Company's competitive position in new or recently introduced product lines. This entailed product improvements and cost reduction programs. An aggressive manufacturing facility rationalization was undertaken, with one-third of the capital funds used to ensure adequate and efficient capacity to meet future anticipated demand. The remaining capital expenditures were made to satisfy various legal, safety and environmental requirements in countries where the Company operates. An increase in capital expenditures is planned for 1981.

The chart below contrasts the Company's cash outflow for additions to fixed assets with sources of cash from the disposal of fixed assets and depreciation and amortization for the period 1976-80.

Fixed Assets, Depreciation and Amortization



FINANCE SUBSIDIARIES AND ASSOCIATE COMPANIES

(1980, $22.9 million; 1979, $16.7 million and $4.6 million)

Revenue of the unconsolidated finance subsidiaries rose $34.3 million to $164.0 million, an increase of 26 per cent. This reflects the increase in interest income on receivables and is reduced by an increase in the finance subsidiaries' cost of borrowing by $28.0 million to $116.6 million. Provision for doubtful accounts increased by $2.5 million, while exchange swung from a loss of $1.3 million in 1979 to a gain of $3.8 million in 1980.

The finance subsidiaries' income before taxes of $35.3 million is an improvement of $8.9 million over 1979. Taxes increased by $2.7 million, leaving a net income for 1980 of $22.9 million compared with $16.7 million in 1979.

In prior years the equity in net income of Associate companies (1979, $4.6 million) was shown as a separate item. Most of this income came from our Associates in Mexico and Spain. With the sale of our shareholdings in these two companies in 1979 and the spring of 1980 respectively, all remaining Associate companies are carried on a cost basis, and our share of earnings is recorded in miscellaneous income when received in the form of dividends.

INDUSTRIAL RELATIONS

Labour relations in 1980 were stable and a sense of co-operation between the unions and the Company prevailed. Agreements reflecting the Company's financial position were reached in the U.S., the U.K. and Canada. The U.S. agreement expires October 31, 1982, the Canadian, September 1, 1983, and the U.K. wage levels are renegotiated as of March 31, 1981, while the U.K. agreement on conditions of employment runs until April 1, 1984. In Brazil, an agreement was reached with the metalworkers which expires in October 1981.

SALES STATISTICS

(Millions of U.S. Dollars)		1980*		1979*	1978*	1977	1976	1975	1974	1973	1972	1971
		% of Total	Amount $	$	$	$	$	$	$	$	$	$
NET SALES BY MARKETS	**North America**											
	Canada	7.0	219.4	217.8	180.0	196.8	222.6	193.6	143.2	102.5	77.8	69.1
	United States	26.2	819.5	839.1	635.1	699.3	634.4	593.9	476.8	410.5	336.4	293.6
	Total	33.2	1,038.9	1,056.9	815.1	896.1	857.0	787.5	620.0	513.0	414.2	362.7
	Europe											
	United Kingdom	9.5	296.9	339.2	321.0	274.4	225.4	211.6	157.5	146.8	128.9	116.2
	France	7.2	227.2	199.8	182.9	189.3	166.7	171.3	142.4	137.4	119.2	95.6
	Italy	6.7	210.9	155.1	122.0	136.2	119.1	89.5	59.3	54.5	45.7	39.4
	West Germany	5.0	157.2	178.9	188.4	220.2	183.1	157.5	88.0	102.6	62.4	56.4
	Scandinavia	3.6	113.6	84.5	104.0	102.7	90.4	86.9	56.1	45.6	42.3	41.3
	Benelux	0.9	28.3	25.8	32.8	44.2	39.8	33.3	19.0	15.8	10.5	9.3
	Austria	0.6	17.8	13.8	13.2	21.9	15.9	14.4	10.3	10.9	8.3	10.1
	Spain	0.3	8.2	10.8	12.0	21.6	19.3	18.6	16.7	10.2	8.3	4.3
	Other	1.8	56.7	44.3	46.1	42.9	30.5	30.4	17.5	16.1	14.3	13.9
	Total	35.6	1,116.8	1,052.2	1,022.4	1,053.4	890.2	813.5	566.8	539.9	439.9	386.5
	Latin America											
	Brazil	9.8	306.0	317.9	249.6	277.1	403.6	363.1	213.3	164.5	121.5	76.4
	Mexico	2.4	75.3	53.8	42.6	20.9	37.4	35.0	19.0	11.3	11.5	11.5
	Argentina	1.4	43.8	43.1	32.8	109.2	72.6	51.7	51.1	29.2	15.5	10.1
	Other	1.7	53.8	42.6	39.7	48.3	35.8	51.8	32.7	23.5	15.9	21.8
	Total	15.3	478.9	457.4	364.7	455.5	549.4	501.6	316.1	228.5	164.4	119.8
	Africa											
	South Africa	2.1	66.2	64.1	73.9	76.5	73.0	99.2	70.2	45.5	43.6	44.7
	Libya	0.9	27.9	24.2	12.5	14.6	14.8	28.9	19.0	11.4	7.7	4.2
	Sudan	0.2	6.5	4.3	1.9	4.2	10.5	3.5	1.7	0.3	4.8	0.5
	Other	2.0	63.9	44.4	54.6	73.1	51.3	63.9	36.1	26.4	21.5	27.5
	Total	5.2	164.5	137.0	142.9	168.4	149.6	195.5	127.0	83.6	77.6	76.9
	Near East	2.3	70.7	49.6	67.8	82.8	101.4	67.7	33.1	36.3	22.9	13.5
	West Asia	2.5	79.1	45.0	58.9	37.1	71.8	35.6	9.0	5.8	9.0	11.1
	East Asia	1.7	52.6	56.4	62.4	46.9	32.7	44.2	26.2	15.4	11.5	16.2
	Australasia	4.2	130.6	118.5	96.8	121.3	121.5	108.8	92.4	74.3	50.5	42.6
	Total	100.0	3,132.1	2,973.0	2,631.0	2,861.5	2,773.6	2,554.4	1,790.6	1,496.8	1,190.0	1,029.3
NET SALES BY QUARTERS	First	22.7	711.1	567.7	503.8	544.2	536.1	467.6	327.2	249.6	199.3	197.6
	Second	27.0	844.7	743.0	723.1	706.5	775.7	652.2	450.3	382.0	299.6	256.4
	Third	23.3	731.4	787.7	651.1	781.7	705.9	673.6	481.7	382.8	328.5	249.4
	Fourth	27.0	844.9	874.6	753.0	829.1	755.9	761.0	531.4	482.4	362.6	325.9
	Total	100.0	3,132.1	2,973.0	2,631.0	2,861.5	2,773.6	2,554.4	1,790.6	1,496.8	1,190.0	1,029.3
NET SALES BY PRODUCTS	**Farm & Industrial Machinery:**											
	Tractors	42.0	1,315.1	1,256.6	1,107.8	1,201.5	1,186.0	1,038.2	673.3	577.0	462.1	396.0
	Grain Harvesting	14.7	460.1	445.1	341.7	333.3	343.7	353.5	246.3	186.0	149.5	128.0
	Hay Harvesting	1.6	50.6	46.1	49.8	60.3	55.1	51.9	42.8	41.1	26.3	29.3
	Industrial Machines	5.2	164.3	195.7	170.8	153.1	144.6	125.0	124.5	118.9	109.4	84.7
	Other Products	5.6	174.5	176.3	209.3	226.9	234.0	226.6	191.9	153.1	112.3	97.0
	Parts	11.8	368.7	349.2	305.6	275.4	267.2	267.9	215.6	175.9	135.9	116.4
	Total	80.9	2,533.3	2,469.0	2,185.0	2,250.5	2,230.6	2,063.1	1,494.4	1,252.0	995.5	851.4
	Engines											
	Engines	23.7	743.6	650.9	560.9	512.9	486.0	402.1	263.0	220.8	197.7	166.1
	Deduct MF	(7.4)	(232.7)	(223.6)	(182.7)	(182.4)	(200.4)	(168.7)	(104.8)	(87.1)	(80.0)	(59.1)
	Parts	2.8	87.9	76.7	67.8	56.4	54.1	61.4	46.6	39.2	32.6	28.1
	Total (Net)	19.1	598.8	504.0	446.0	386.9	339.7	294.8	204.8	172.9	150.3	135.1
	Construction Machinery											
	Machines					184.9	169.9	160.8	79.0	62.9	37.6	36.9
	Parts					39.2	33.4	35.7	12.4	9.0	6.6	5.9
	Total					224.1	203.3	196.5	91.4	71.9	44.2	42.8
	Total	100.0	3,132.1	2,973.0	2,631.0	2,861.5	2,773.6	2,554.4	1,790.6	1,496.8	1,190.0	1,029.3

*Excluding construction machinery.

FINANCIAL STATISTICS

(Millions of U.S. Dollars)			1980	1979	1978*	1977*	1976*	1975*
SUMMARY OF OPERATIONS	Net sales	$	**3,132**	2,973	2,631	2,861	2,774	2,554
	Gross profit	$	**556**	573	512	603	533	511
	Net expenses (excluding interest)	$	**501**	377	453	417	277	272
	Interest expense (net)	$	**259**	164	155	151	101	99
	Provision for Reorganization Expense	$	**29**	95	73			
	Income tax recovery (expense)	$	**10**	6	(17)	(17)	(57)	(49)
	Finance subsidiaries and Associate Cos.	$	**23**	21	19	14	10	9
	(Loss) Profit from Continuing Operations	$	**(200)**	(36)	(167)	32	108	100
	Loss from Discontinued Operations	$	**(25)**	(23)	(95)			
	(Loss) Profit before Extraordinary Item	$	**(225)**	(59)	(262)	32	108	100
	Extraordinary Item	$		95				
	Net (loss) income	$	**(225)**	37	(262)	32	108	100
	Operating (loss) profit**	$	**(139)**	30	(133)	77	126	111
	Dividends—Common	$			4	19	18	13
	—Preferred	$			2	10	7	2
	(Loss) income retained	$	**(225)**	37	(268)	3	83	85
FINANCIAL CONDITION	Working capital	$	**213**	426	431	703	739	643
	Additions to fixed assets	$	**46**	77	99	147	175	170
	Depreciation and amortization	$	**80**	88	77	69	54	45
	Total assets	$	**2,828**	2,745	2,573	2,620	2,323	2,015
	Current ratio		**1.1**	1.3	1.3	1.6	1.8	1.8
	Asset turnover ratio		**1.1**	1.1	1.0	1.1	1.2	1.3
	Debt/equity ratio***		**4.6**	2.1	2.1	1.2	0.9	1.0
LIABILITIES AND SHAREHOLDERS' EQUITY	Current	$	**1,894**	1,510	1,297	1,094	894	831
	Other	$	**581**	658	735	712	619	515
	Shareholders' equity***	$	**353**	578	541	813	811	669
	Return on closing equity***	%	**(63.8)**	6.4	(48.5)	3.9	13.3	14.9
AS A PER CENT OF SALES	Cost of goods sold, at average exchange rates	%	**82.0**	80.1	81.1	78.0	76.8	77.6
	Effect of foreign currency exchange rate changes	%	**0.2**	0.6	(0.6)	0.9	4.0	2.4
	Gross margin	%	**17.7**	19.3	19.5	21.1	19.2	20.0
	Marketing, general and administrative	%	**12.9**	11.8	12.6	11.9	11.5	10.6
	Engineering and product development	%	**1.9**	2.0	2.2	2.4	2.2	2.2
	(Loss) profit before Items Shown Below	%	**(6.5)**	1.1	(3.7)	1.2	5.6	5.5
	Provision for Reorganization Expense	%	**(0.9)**	3.2	2.8			
	Net (Loss) Income	%	**(7.2)**	1.2	(10.0)	1.1	3.9	3.9
	Operating (loss) profit**	%	**(4.4)**	1.0	(5.0)	2.7	4.6	4.4
PER COMMON SHARE ($U.S.)	Net sales	$	**171.62**	162.90	144.16	156.76	152.00	139.94
	(Loss) Income (after cumulative dividends on preferred shares)	$	**(12.79)**	1.58	(14.84)	1.21	5.53	5.37
	(Loss) Income retained	$	**(12.79)**	1.58	(14.68)	0.16	4.55	4.66
	Equity	$	**12.87**	25.66	24.08	39.06	38.92	34.53
	Toronto Stock Exchange quotes, High	$	**13⅝**	15½	20¼	24⅛	32	18⅛
	($Canadian) Low	$	**5¾**	9½	9½	16⅛	16¾	12⅛
	Dividends declared ($Canadian)	$			0.25	1.08	1.00	0.70
	Dividends paid ($Canadian)	$			0.25	1.08	1.00	0.90
SHAREHOLDERS/ EMPLOYEES	Shareholders—Common shares		**28,351**	29,926	31,353	30,619	31,039	35,844
	—Preferred shares		**9,669**	10,613	11,370	10,208	10,620	5,046
	Employees (at year end)		**41,690**	56,233	57,983	67,151	68,200	64,572
	Common shares outstanding (thousands)		**18,250**	18,250	18,250	18,250	18,250	18,250
	Preferred shares outstanding (thousands)		**3,825**	3,825	3,825	3,999	3,999	1,600

*Results for 1980, 1979, and 1978 include the construction machinery business as discontinued operations. It is not practicable to segregate construction machinery operations for years prior to 1978.

**Operating (loss) profit is defined on page 36 of this Report.

***Accounting Series Release 268 (see Note 15(d)) of the SEC requires that certain preferred shares used in the calculation of equity ratios be considered as debt rather than equity. Under this assumption, the equity ratios presented above would be as follows: debt/equity, 1980—6.7, 1979—2.7, 1978—2.8, 1977—1.50, 1976—1.1, 1975—1.1, return on closing equity, 1980—(87.5)%, 1979—7.6%, 1978—(58.9)%, 1977—4.5%, 1976—15.2%, 1975—15.9%.

OPERATING COMPANIES – FACILITIES AND PRODUCTS

FARM AND INDUSTRIAL MACHINERY

ARGENTINA
Massey-Ferguson Argentina S.A.
Rosario Plant (270,000 sq. ft.) – agricultural tractors

AUSTRALIA
Massey-Ferguson (Australia) Limited
Bundaberg Plant (207,000 sq. ft.) – sugar cane harvesters, loaders, backhoes.
Sunshine (Melbourne) Plant (1,072,000 sq. ft.) – combines, implements.

BRAZIL
Massey Ferguson Perkins S.A.
Canoas Plant (582,000 sq. ft.) – combines, implements, backhoes.
Sao Paulo Plant (389,000 sq. ft.) – agricultural and industrial tractors.

CANADA
Massey-Ferguson Industries Limited
Brantford Locations
– *Combine Plant (815,000 sq. ft.)* – combines, combine cabs.
– *Foundry (255,000 sq. ft.)* – grey iron castings.
– *Implement Plant (804,000 sq. ft.)* – plows, mowers, rakes and other implements, combine and tractor components.
Steel Processing Plant (347,000 sq. ft.) – steel stampings.
Toronto Plant (1,835,000 sq. ft.) – balers, corn heads, tractor cabs, combine and tractor components.
Cambridge Foundry (61,000 sq. ft.) – grey iron and nodular castings.

FRANCE
Massey-Ferguson S.A.
Beauvais Plant (932,000 sq. ft.) – agricultural tractors, tractor components.
Marquette Plant (1,155,000 sq. ft.) – combines, balers, tractor cabs, components, grey iron castings.

ITALY
Massey-Ferguson S.p.A.
Aprilia Plant (600,000 sq. ft.) – industrial crawler tractors; agricultural and industrial machinery components.
Como Plant (115,000 sq. ft.) – agricultural tractor components.
Fabbrico Plant (380,000 sq. ft.) – agricultural wheel tractors.

UNITED KINGDOM
Massey-Ferguson (United Kingdom) Limited
Baginton Plant (312,000 sq. ft.) – tractor components.
Coventry Plant (1,517,000 sq. ft.) – agricultural and industrial tractors, axles, gearboxes, other components.
Manchester Plant (511,000 sq. ft.) – tractor-backhoe-loaders and tractor components.

UNITED STATES
Massey-Ferguson Inc.
Des Moines Plant (570,000 sq. ft.) – 4-wheel-drive agricultural tractors, tractor-backhoe-loaders.
Detroit Locations
– *Southfield Plant (820,000 sq. ft.)* – agricultural and industrial tractors, tractor-backhoe-loaders.
– *Transmission and Axle Plant (397,000 sq. ft.)* – transmissions and axles.
– *Gear and Shaft Plant (314,000 sq. ft.)* – gears and shafts.

WEST GERMANY
Massey-Ferguson GmbH
Eschwege Plant (721,000 sq. ft.) – hydraulic cylinders and components.
Gebr.Eicher GmbH
Landau Plant (240,000 sq. ft.) – tractors, implements.

ENGINES

AUSTRALIA
Perkins Engines Australia Pty. Ltd.
Dandenong Plant (28,000 sq. ft.) – industrial diesel engine assembly, engine reconditioning.

BRAZIL
Massey Ferguson Perkins S.A.
Sao Bernardo Plant (263,000 sq. ft.) – diesel engines.
Sao Paulo (Alvarengas) Plant (132,000 sq. ft.) – diesel engines.
Progresso Metalfrit S.A.
Sao Paulo Foundry (135,000 sq. ft.) – grey iron castings.

FRANCE
Moteurs Perkins S.A.
Genainville Plant (30,000 sq. ft.) – diesel and gasoline engine assembly.

UNITED KINGDOM
Perkins Engines Group Limited
Peterborough Locations
– *Eastfield Plant (1,403,000 sq. ft.)* – diesel and gasoline engines, engine reconditioning.
– *Fletton Components Plant (116,000 sq. ft.)* – engine components.
– *Fletton V8 Plant (150,000 sq. ft.)* – diesel engines.
– *Walton Plant (164,000 sq. ft.)* – engine components.

UNITED STATES
Perkins Engines, Inc.
Detroit, Van Born Plant (100,000 sq. ft.) – diesel engine assembly.

PARTS FACILITIES

The Company has 31 major parts warehouses in 10 countries with an approximate total of 2,500,000 square feet of covered storage area. The largest facilities are located at:
Racine, U.S.A. (755,000 sq. ft.)
Urmston, U.K. (362,000 sq. ft.)
Brantford, Canada (173,000 sq. ft.)
Athis Mons, France (150,000 sq. ft.)
Eschwege, West Germany (103,000 sq. ft.)

ASSOCIATE COMPANIES AND PER CENT OWNED

ARGENTINA
Perkins Argentina S.A.I.C. 30%
Cordoba Plant (262,000 sq. ft.) – diesel engines.

BRAZIL
Piratininga, Implementos Agricolas S.A. 40%
Butia Plant (65,000 sq. ft.) – farm implements.

INDIA
Tractors and Farm Equipment Limited 49%
Madras Plant (193,000 sq. ft.) – tractors, implements.

ITALY
Simmel S.p.A. 33⅓%
Castelfranco Veneto Plant (380,000 sq. ft.) – crawler tractor components.

LIBYA
Libyan Tractor Company 33⅓%
Ta Joura (Tripoli) Plant (118,000 sq. ft.) – tractors.

MALAWI
Agrimal (Malawi) Limited 20%
Blantyre Plant (12,000 sq. ft.) – hoes, animal draft equipment.

MEXICO
Motores Perkins S.A. 21%
Toluca Plant (153,000 sq. ft.) – diesel engines.

MOROCCO
Compagnie Maghrebine de Materiels Agricoles et Industriels, S.A. 24%
Casablanca Plant (54,000 sq. ft.) – tractors.

PERU
Tractores Andinos S.A. 49%
Trujillo Plant (70,000 sq. ft.) – tractors.

Motores Diesel Andinos S.A. 24%
Trujillo Plant (109,000 sq. ft.) – diesel engines.

SOUTH AFRICA
FedMech Holdings Limited 25%
Vereeniging Plant (658,000 sq. ft.) – implements, tractor accessories, attachments, industrial loaders, transport systems.
Potgietersrus Plant (216,000 sq. ft.) – harvesting machinery, implements, trailers.

OTHER LICENSEE LOCATIONS

Farm and Industrial Machinery: Greece, Iran, Japan, Kenya, Malaysia, Mexico, Pakistan, Poland, Portugal, Saudi Arabia, Spain, Thailand, Turkey, Uruguay

Engines: Bulgaria, Greece, India, Iran, Pakistan, Poland, South Africa, South Korea, Spain, Turkey, Uruguay, Yugoslavia.

DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

Victor A. Rice
Chairman of the Board of Directors and President, Massey-Ferguson Limited

The Marquess of Abergavenny
Director, Lloyds Bank Limited

Ralph M. Barford
President, Valleydene Corporation Limited

Charles M. Laidley
Vice-Chairman, Canadian Imperial Bank of Commerce

John D. Leitch
Vice President and Director, Canadian Imperial Bank of Commerce

A. Bruce Matthews
Chairman, Dome Mines Limited

A. M. Runciman
President, United Grain Growers Limited

Albert A. Thornbrough
Retired President and Chief Executive Officer, Massey-Ferguson Limited

Hon. John N. Turner
Partner, McMillan, Binch

J. Page R. Wadsworth
Chairman, Confederation Life Insurance Company

Colin W. Webster
Chairman, St. Lawrence Stevedoring Company Limited

The Duke of Wellington
Director, Massey-Ferguson Holdings Limited

COMMITTEES OF THE BOARD

Executive committee
Victor A. Rice
Chairman
Ralph M. Barford
Charles M. Laidley
John D. Leitch
A. Bruce Matthews
Hon. John N. Turner
J. Page R. Wadsworth

Audit committee
J. Page R. Wadsworth
Chairman
John D. Leitch
A. Bruce Matthews

Compensation committee
Ralph M. Barford
Chairman
J. Page R. Wadsworth
Colin W. Webster

Nominating committee
Hon. John N. Turner
Chairman
Ralph M. Barford

HEAD OFFICE MANAGEMENT

*Victor A. Rice
President and Chief Executive Officer

*Vincent D. Laurenzo
Senior Vice President Planning & Administration

*Douglas Barker
Vice President and Treasurer

*James J. Campbell
Vice President European & World Export Operations

*Don L. Douglass
Vice President Special Projects

*James M. Felker
Vice President Perkins Engines

*Michael R. Hoffman
Vice President Technical and Vice President Southern Hemisphere Operations

*Darwin G. Kettering
Vice President North American Operations

*D. Brian Long
Vice President Planning

*John P. McCarter
Secretary

*Philip E. Moate
Vice President Organization & Employee Relations

*Ivan Porter
Vice President and Comptroller

*Ralph Ramsay
Vice President Engineering

*Derek Robertson
Vice President World Export Operations

*John H. Ruth
Vice President Marketing

Michael G. Bird
Director Legal Services and Managing Director Massey-Ferguson Holdings Limited

Fred J. Bradley
Director Internal Audit

Roger C. Clarke
Director Communications

Paul J. Dixon
Director Management Systems

B. Thomas M. Smith
Director Materials

Ronald L. Wallock
Director Manufacturing

**Officers of the Company*

Other Officers of the Company:
R. D. Garland, Assistant Secretary;
W. H. Mason, V. F. Ciardello, M. E. Erlindson, Assistant Treasurers

OPERATIONS MANAGEMENT

North American Operations
D. G. Kettering
Vice President

G. A. Christians
General Manager Sales Division

M. E. Davis
General Manager Harvesting Division

D. G. Kettering
Acting General Manager Tractor Division

J. F. Wimpress
General Manager Parts Division

B. L. Bartlett
Director Distribution Operations & Systems Development

I. M. Teterud
Director Distribution Finance Operations

European & World Export Operations
J. J. Campbell
Vice President

D. Robertson
Vice President World Export Operations

H. Braxmaier
General Manager German Operations

V. de Mesquita
General Manager French Operations

G. J. Fiori
General Manager European Parts Operations

H. J. Hebden
General Manager United Kingdom Operations

S. Mangano
General Manager Italian Operations

Southern Hemisphere Operations
M. R. Hoffman
Vice President

O. J. Chapple
General Manager Brazilian Operations

R. J. Solari
General Manager Argentine Operations

A. Verhagen
General Manager Australian Operations

Engines Group
J. M. Felker
Vice President

J. F. Devaney
Director Manufacturing

T. W. E. Downes
Director Engineering

J. M. Felker
Acting Director Sales & Marketing

D. J. Freemantle
Director Personnel

R. G. Hadnam
Director Purchase & Supply

J. M. Lawrence
Director Quality Control

R. E. Robson
Director Management Systems

B. J. Weedon
Director Product Planning

Massey-Ferguson Limited
World Headquarters
200 University Avenue
Toronto, Ontario M5H 3E4 Canada

10-K REPORT. A copy of the Company's 10-K report for 1980 is available to shareholders upon request to the Company Secretary.

DIVIDENDS. No dividends have been paid to common shareholders since December 20, 1977, to Series A Preferred shareholders since January 31, 1978, or to Series B Preferred shareholders since December 31, 1977.

The Company believes that the successful completion of its refinancing efforts will necessarily include the removal of any restrictions on the resumption of dividends on its preferred shares. No dividend action on the common shares can be taken until all arrears in preferred dividends have been paid.

PREFERRED SHAREHOLDERS' VOTING RIGHTS. All holders of preferred shares, both Series A and B, are entitled to attend and vote at the Company's Annual Meeting as a result of the preferred share dividends being in arrears for more than eight quarterly payments.

LE RAPPORT EN FRANÇAIS. Le rapport du conseil aux actionnaires et certains extraits du rapport annuel en français peuvent être obtenus sur demande en s'adressant au Secrétaire de la compagnie.

COMMON SHARES

Transfer Agents and Registrars
National Trust Company, Limited, Toronto, Montreal, Winnipeg, Calgary, Vancouver

The Canadian Bank of Commerce Trust Company, New York

Canadian Imperial Bank of Commerce, London, England

Stock Exchanges
The common shares of Massey-Ferguson Limited are listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada, on the New York Stock Exchange in the United States and on the London Stock Exchange in England.

These shares have unlisted trading privileges in the United States on the Midwest Stock Exchange, the PBW Stock Exchange, the Boston Stock Exchange and the Pacific Coast Stock Exchange. The shares are also traded on the Amsterdam Stock Exchange in the form of Dutch Bearer Certificates.

PREFERRED SHARES

Transfer Agents
Crown Trust Company, Toronto, Montreal, Winnipeg, Calgary, Vancouver

Canada Permanent Trust Company, Regina

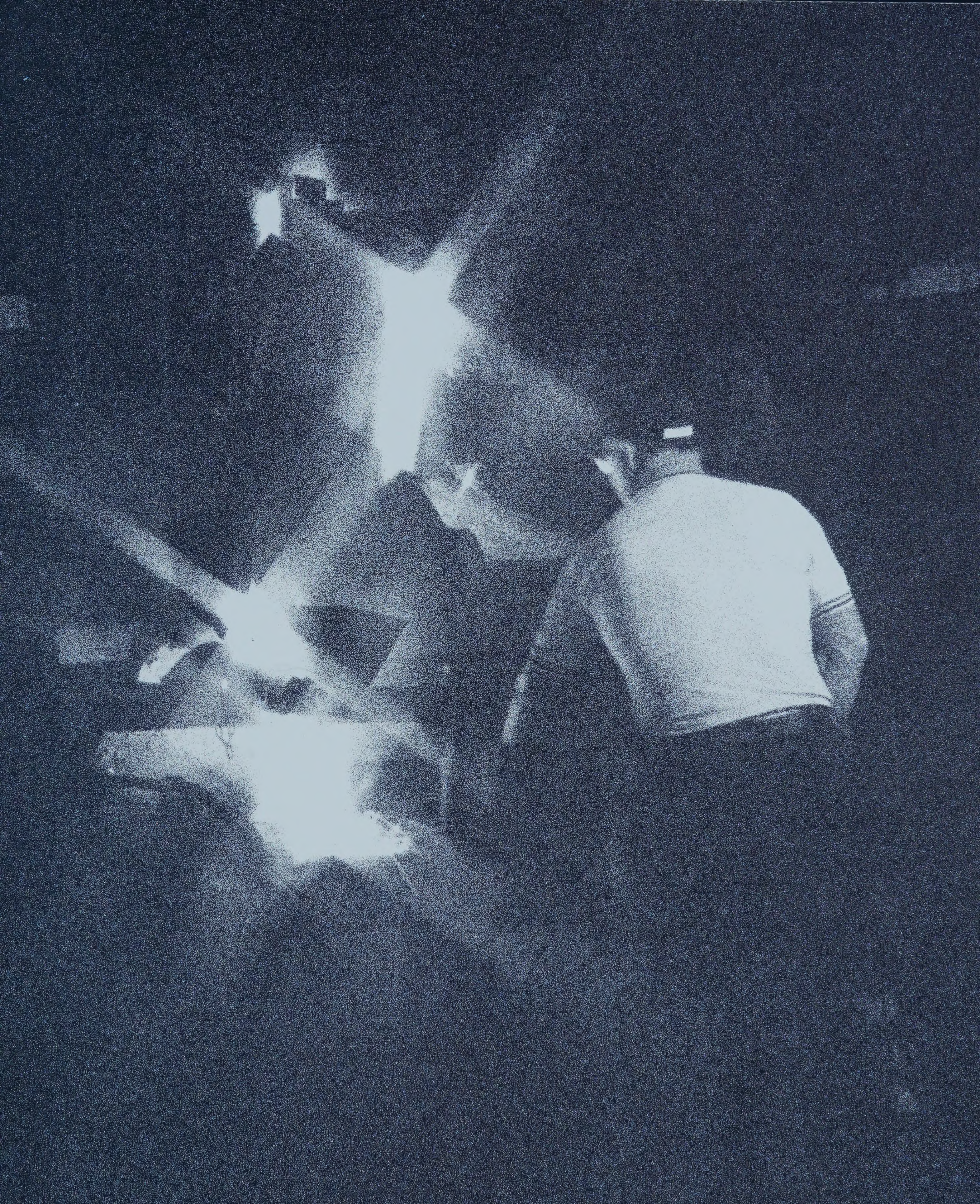
Registrar
Crown Trust Company, Toronto, Montreal, Winnipeg, Calgary, Vancouver

Stock Exchanges
The preferred shares of Massey-Ferguson Limited are listed only on the Toronto, Montreal and Vancouver Stock Exchanges in Canada.

ADDITIONAL STATISTICAL DATA	1980	1979
Number of employees (at year end)	**41,690***	56,233
Number of shareholders		
Common	**28,351**	29,926
Preferred	**9,669**	10,613
Shares outstanding (thousands)		
Common	**18,250**	18,250
Preferred		
Series A	**1,526**	1,526
Series B	**2,299**	2,299
Percentage of ownership of common shares by registered residence		
Canada	**54.2**	61.9
United States	**44.7**	36.9

*Excludes those laid off in North American Operations

Printed in Canada



Operations at our Brantford, Ontario foundry.

"Included in the good news is that the Company is now much more firmly established in its 'home'– Canada"

Victor A. Rice